

VA Financial Policies and Procedures
General Property, Plant and Equipment

CHAPTER 9

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0901 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policy and procedures for general property, plant and equipment (PP&E) owned or leased by VA, to include depreciation or amortization, deferred maintenance and repairs, non-recurring maintenance, and major and minor construction projects. VA has a vast holding of diverse assets consisting of hospitals, clinics, cemeteries, office buildings, and medical and non-medical equipment, VA-owned and leased. For the purposes of this chapter, heritage assets, internal use software (IUS), stewardship property, and hazardous cleanup (e.g., asbestos or other hazardous waste removal) are not included. Refer to Office of Financial Policy (OFP) Volume III, *Miscellaneous Accounting Topics*, Chapter 6, *Heritage Assets*, Chapter 10, *Accounting for Internal Use Software*, Chapter 7, *Required Supplementary Stewardship Information: Non-Federal Physical Property*, and Volume VI, *Liabilities*, Chapter 8, *Environmental and Disposal Liabilities*, for additional VA policy specific to these topics.

VA's overall governance, oversight and policies for current and future assets are guided by rules and requirements of various laws and regulations, such as the Statement of Financial Accounting Standards (SFFAS), Government Performance and Results Act (GPRA), Federal Financial Management Improvement Act of 1996, and Office of Management and Budget (OMB) circulars. Each of these has distinct requirements, and VA has incorporated them into policies for acquiring and managing capital assets. Refer to [Appendix A, Guidance on Managing VA Assets](#), for additional information.

0902 POLICIES

090201 PROPERTY, PLANT AND EQUIPMENT

090201.01 PP&E DETERMINATION. VA will follow SFFAS 6: *Accounting for Property, Plant, and Equipment*, and other related standards for PP&E and related accounting transactions.

A. To properly determine, record, and report PP&E, VA must first determine that the item is considered PP&E. PP&E is defined as tangible assets that:

- Have an estimated useful life of 2 years or more;¹
- Have been acquired or constructed with the intention of being used or being available for use by VA; and
- Are not intended for sale in the ordinary course of VA operations.

¹ Used as an accounting basis, the normal operating life of an asset in terms of usefulness to the owner. Refer to section 090206 Depreciation/Amortization Expense.

PP&E does not include items held in anticipation of physical consumption, such as operating materials and supplies, and items in which VA has a reversionary interest.²

B. PP&E Characteristics. PP&E typically is used:

- To produce goods or services or to support the mission of the agency, but could be used for alternative purposes (e.g., by other Federal programs, state or local governments or non-governmental entities);
- For business-type activities;³ or
- For entity activities whose costs may be compared to other entities performing similar activities, e.g., VA medical hospitals compared with other hospitals.

C. PP&E is further classified as either real or personal property.

1. Real property consists of Federal facilities and installed equipment, to include real property acquired through capital leases and leasehold improvements,⁴ and real property owned by VA, but held by others. Real property may include:

- Land, buildings, other structures,⁵ and land improvements, to include water and sewage systems, roads, sidewalks, and other improvements,
- Leased real property, whether owned commercially or by the General Services Administration (GSA),
- Building service equipment, which is an integral part of the real property for the purpose of rendering the building or structure usable or habitable and permanently affixed. For example, heating/air-conditioning systems, lighting fixtures, elevators, vaults, fire alarm systems, and other items normally required for the functional use of buildings and structures, or

² The Federal government sometimes retains an interest in PP&E acquired with grant money. In the event that the grant recipient no longer uses the PP&E in the activity for which the grant was originally provided, the PP&E reverts to the Federal Government.

³ Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through the collection of revenue as defined in SFFAS 7: Accounting for Revenue and Other Financing Sources.

⁴ Leasehold improvements include improvements made to PP&E acquired through either a capital or operating lease.

⁵ Other structure is an asset not classified as another real property category (e.g., parking garages, open-sided sheds, water towers, generators, solar panels, and windmills). The asset may be a structure or system serving more than one building or structure as one asset and is not building service equipment. The asset is carried as one asset in the subsidiary records. Other structures (or other real property) is generally classified as BOC 3240 or 3241 titled, *Other Structures (or Facilities)*.

2. Personal property consists of all property other than real property, property on Federal compounds that is disposed of as trash,⁶ and personal heritage assets, such as items of historic significance (e.g., Civil War era military uniforms and furniture in historic VA chapels).⁷ Items in the personal property category are further classified as expendable or non-expendable. The classification of property into these categories provides the basis for: (1) the segregation of equipment assets from operating supplies and (2) the data collection effort to support a planned maintenance and replacement program.

a. Additional information on the classification of personal property is available in [VA Handbook 7002, Logistics Management Procedures](#). In addition to the considerations listed below for classifying personal property, the item should first be compared to the Integrated Supply Management System (ISMS) or available listing.⁸ Non-expendable property will have a category stock number (CSN) and a useful life (life expectancy); expendable items (supplies) have a national stock number (NSN), but do not have a life expectancy even though they may be durable in nature.

To properly classify personal property, the following will be considered:

(1) Expendable property:

- Generally has a life expectancy when put to use of less than two years (includes supplies and materials consumed in normal business operations, such as tools and medical or pharmaceutical supplies not of an accountable or sensitive nature⁹);
- Becomes an integral part of another item, when put to use, thereby losing its individual identity;
- Is purchased for permanent release to beneficiaries (Prosthetics and Sensory Aids Service usually orders items for beneficiaries); or

(2) Non-expendable property:

- Has a life expectancy of two years or more;
- Is of a sensitive nature which requires accountability/control regardless of cost, life expectancy, or maintenance requirements; or

⁶ Refer to VA Handbook 7348, *Utilization and Disposal of Personal Property*, for further guidance.

⁷ Refer to OFP Volume III, Chapter 6, *Heritage Assets*.

⁸ To request access to ISMS, users should contact the Operations Analysis Division (OAD) at the VA National Acquisition Center (NAC). A [VHA SharePoint](#) text file containing the CSN (or NSN), associated life expectancy, and description is currently maintained by the VHA CFO Office of Financial Oversight and used in updates for various systems. Access may be granted by emailing the shared Outlook mailbox, [VHA CFO Financial Analyses \(10A3A\)](#) (VA access only).

⁹ Refer to OFP Volume V, Chapter 8A, *Operating Supplies and Materials*, for additional information.

- Normally has, but is not limited to, an acquisition cost of \$300 or more. An item classified as non-expendable may cost less than \$300, e.g., refrigerators, microwave, printers, digital cameras, and items of a sensitive nature that require accountability controls.
- b. For property not listed in ISMS, a request should be emailed to the Operations Analysis Division (OAD), located at VA's National Acquisition Center (NAC)¹⁰, which is responsible for assigning a CSN to new non-expendable items. [VA Form 0886](#), Request for Catalog Change, will be used by field activities when requesting to change an item from non-expendable to expendable.

090201.02 PP&E COSTS. After a determination has been made that an asset is considered PPE, as defined above, the cost of the asset must be determined to properly record the item. Recording PP&E costs accurately begins with identifying purchases that meet generally accepted accounting principles for included costs and those that do not. In accordance with SFFAS 6, cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use.

As applicable, PP&E costs **may** include, but are not limited to:

- Amounts paid to vendors.
- Transportation charges to the point of initial use.
- Handling and storage.
- Labor (including purchase and hire), materials, supplies and other direct or indirect production costs (for assets produced or constructed).
- Engineering and architectural services for designs, plans, specifications and surveys.
- Acquisition and preparation costs of land, buildings, and other structures or facilities. Preparation costs of land may include such items as initial clearing, grading, or other permanent land developments.¹¹
- Fixed equipment and related installation costs required for activities in a building or facility.

¹⁰ The OAD contacts are available on the NAC Contacts web page under Business Resource Service, <http://www.va.gov/oal/about/nacContacts.asp>.

¹¹ Land developments may be included in the cost of land, buildings, or other structures as appropriate. Land developments are not recorded as a separate asset.

- Site preparation costs¹² directly related to equipment. Medical and other non-building service equipment site preparation costs may be capitalized as part of real property.
- Direct costs of inspection, supervision, and administration of construction contracts and construction work, such as Corps of Engineers surcharges.
 - Administration of contracting costs for equipment purchases, such as Solutions for Enterprise-Wide Procurement (SEWP) fees, Corps of Engineers, etc.
- Legal and recording fees, and damage claims.

PP&E costs should not include:

- NAC surcharge (or other surcharges or fees within VA) associated with the acquisition and/or construction of PP&E.
- Feasibility studies. Feasibility studies are not the same service described in engineering and architectural services described above.
- Training costs, such as materials or travel for class, which are not associated with IUS.¹³ Post-implementation training costs or costs identified or reasonably estimated in the PP&E contract price will be expensed; training costs that cannot be easily extrapolated from a contract may be capitalized with the PP&E.
- Costs related to continuing operations will not be a cost of the asset, for example, the cost of renting a CAT Scan trailer during construction.

090201.03 RECORDING PP&E. Each VA Administration and Staff Office will maintain records of both owned and leased assets and agreements to serve their organizational needs. Electronic or hardcopy documentation will be maintained for both capitalized assets and expensed non-capitalized assets. Basic documentation will be maintained for the life of the asset and for three years after disposal or transfer of the asset, as required by VA's Records Management Directives and Handbooks (6300 series) and the applicable [National Archives and Records Administration General Records Schedules](#). Documentation should support the cost of each asset, the date the asset was placed into service, the useful life of the asset, and any subsequent acquisition, disposal, or transfer impacting the recorded value of the item.

¹² Where a construction project is obligated in conjunction with an equipment contract, the site preparation cost should be included with the construction project. Asbestos and other hazardous material removal are not part of the site preparation cost. Refer to Volume VI, *Liabilities*, Chapter 8, Environmental and Disposal Liabilities, for additional information.

¹³ Refer to OFP Volume III, Chapter 10, *Accounting for IUS*, for cost information related to IUS.

A. VA will record PP&E as capitalized or non-capitalized, object classes 31.0 and 32.0. The chief of the finance activity will make the final decision in accordance with policy as to whether an estimated cost represents a future capital expenditure. Refer to OFP Volume XIII, Chapter 2, *Budget Object Codes*. For capitalized PP&E other than land, VA will accumulate and record depreciation expense in a contra asset account - accumulated depreciation. Refer to section [090206 Depreciation/Amortization Expense](#) for additional policy guidance.

1. For personal property, VA will record the asset within the fiscal month, but no later than the next fiscal month, from the earlier of either the date when the title passes to VA, or when the asset is delivered and accepted by VA. The specific contract terms may dictate when VA will take title.

2. For acquired real property (e.g., land, buildings) VA will record the asset within the fiscal month, but no later than the next fiscal month, after the property is placed in service.¹⁴

3. For constructed real property, VA will record the asset as “construction work in process” until it is placed in service.¹⁵ The asset will be recorded within 90 days of being placed in service. The date the asset is placed in service or ready and available for its intended use, also the date of acquisition.

B. VA will record all acquired PP&E at either the cost, including transfers from other Federal agencies, or at the fair value for fixed assets exchanges and donations from other sources.

1. VA will record PP&E acquired through donation, devise¹⁶, or judicial process, excluding forfeiture, at the fair value at the time acquired.

2. VA will record PP&E acquired by exchange or transfer from another Federal agency at the cost recorded by the transferring entity less any accumulated depreciation (net book value). If the receiving station within VA cannot reasonably ascertain the net book value, the cost will be the fair value at the time acquired.

3. VA will record PP&E acquired through exchange at the fair value of the PP&E surrendered at the time of exchange. If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost shall be the fair value of PP&E acquired. If neither the surrendered or acquired fair value can be determined,

¹⁴ For acquired real property, placed in service is the date VA assumes liability and the warranties begin on the asset. For land, the date of delivery or deed execution represents the acceptance date.

¹⁵ For constructed real property, placed in service is the date the asset is ready and available for its intended use. Even if the property is not being used, it is in service when it is ready and available for its intended use and VA assumes liability and the warranties begin on the asset. Placed in service date may not coincide with the completion of financial actions (e.g., payments).

¹⁶ Devise is a will or clause of a will disposing of property.

the cost of the PP&E will be the cost recorded less any accumulated depreciation or amortization.

a. In the event that cash consideration is included in the exchange, the cost of general PP&E acquired will be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received.¹⁷

b. Any difference between the net recorded amount of the PP&E surrendered and the cost of the PP&E acquired will be recognized as a gain or loss.

4. VA will record PP&E acquired through forfeiture in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*. Refer to Volume V, Chapter 8, *Inventories*, for additional guidance.

C. VA will record the cost of PP&E net of purchase discounts. VA will recognize purchase discounts lost and late payment penalties as an operating expense in the period incurred.

D. VA will record general expenditures incurred to maintain PP&E in a satisfactory operating condition as an operating expense when the capitalization criteria are not met. Refer to [090202, Capitalization](#) and [090202.03, Maintenance and Repairs](#). Some examples of expenditures may be preventive maintenance, repainting, normal maintenance and repair, costs incurred under the terms of a service contract, and non-recurring maintenance (NRM).

E. VA will record non-expendable equipment in the Fixed Assets Package (FAP) Subsystem¹⁸ through an interface with the Automated Engineering Management System/Medical Equipment Reporting System (AEMS/MERS). AEMS/MERS serves as the inventory record for accountable equipment, which may be either capitalized or non-capitalized assets. FAP documents the original and subsequent value of assets and interfaces with other VA Financial Management System (FMS) subsystems to support fiscal and risk management as well as standard reporting. Refer to [Appendix C, Fixed Asset Package \(FAP\) Subsystem Procedures](#), for additional information.

1. All non-expendable equipment within AEMS/MERS is assigned a standardized Equipment Inventory List (EIL) number.

2. An EIL number identifies the department within the facility to which the equipment belongs and is to be used when entering equipment in the AEMS/MERS system and conducting physical inventories.

¹⁷ Example: Equipment purchased for \$1,300,000 plus trade-in valued at \$100,000, will be recorded with a cost of \$1,400,000 (1,300,000 + \$100,000)

¹⁸ The FAP Subsystem is VA's subsidiary ledger that supports many types of assets such as land, buildings and nonexpendable equipment.

F. VA will use historical cost, when available, to record PP&E assets that are not recorded or not recorded correctly. However, when historical cost is not readily available, VA may reasonably estimate the historical cost.¹⁹

1. VA may use historical cost estimates based on any of the following:
 - a. The cost of similar assets at the time of acquisition;
 - b. The current cost of similar assets discounted for inflation since the time of acquisition (i.e., deflating current costs to costs at the time of acquisition by general price index);
 - c. Information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expensed;
 - d. The current replacement costs of similar items and deflating those costs; or
 - e. Other reasonable auditable methods.
2. VA Administrations and Staff Offices' financial activities are responsible for maintaining adequate documentation to support the historical cost data and the methodology.

Refer to section [090501A, Reconstructing or Correcting PP&E Records](#).

090202 CAPITALIZATION.

A. Capitalization Criteria:

1. VA will capitalize land, regardless of cost.²⁰
2. VA will capitalize PP&E when it:
 - Has an estimated useful life of 2 years or more;
 - Has been acquired or constructed with the intention of being used or being available for use by VA;
 - Has met the VA minimum acquisition cost or fair market value (FMV) threshold, as applicable of (See 090201.03 and refer to [Appendix D: Examples of Capitalization versus Expense](#)):

¹⁹ Per SFFAS 35 as it amended SFFAS 6, *Accounting for Property, Plant, and Equipment*.

²⁰ Land is not depreciated. The cost may include permanent land development such as clearing, leveling, and other related costs that are considered permanent. Land development costs that are attributed to constructing a building or other structure are generally applied to the cost of that asset.

- \$100,000, prior to October 1, 2013;
 - \$1,000,000, on or after October 1, 2013; and
 - Is not intended for sale in the ordinary course of VA operations.
3. VA will capitalize a subsequent project when it:²¹
- Has extended the useful life of an associated asset (as opposed to maintaining its normal operating life); or
 - Has enlarged or improved the capacity or function of the associated asset; and
 - Has met the VA minimum acquisition cost or FMV threshold, as applicable, of:
 - \$100,000, prior to October 1, 2013;
 - or \$1,000,000 on or after October 1, 2013, and
 - Is not intended for sale in the ordinary course of VA operations.

For additional information on projects that may be considered subsequent projects, refer to sections [090202.02, Additions and Improvements](#), through [090202.04, Severely Damaged or Destroyed Assets](#), for the particular criteria applicable to these items. Also refer to [Appendix D: Examples of Capitalization versus Expense](#).

B. VA will capitalize PP&E in the FAP Subsystem. Refer to [APPENDIX C: FIXED ASSET PACKAGE SUBSYSTEM PROCEDURES](#), for additional guidance.

C. For personal property, VA will capitalize the asset within the fiscal month, but no later than the next fiscal month, from the earlier of either the date when the title passes to VA or when the asset is delivered and accepted by VA. The specific contract terms may dictate when VA will take title.

D. For acquired real property (e.g., land, buildings), VA will capitalize the asset within the fiscal month, but no later than the next fiscal month, after the property is placed in service.²²

E. For constructed real property, VA will record construction work in process until it is placed in service.²³ When placed into service, the balance will be transferred to PP&E

²¹ Refer to SFFAS #6, paragraph 37. Subsequent projects may include additions or improvements or other projects completed on an existing asset.

²² Land is capitalized, regardless of cost, and is not depreciated.

²³ For constructed real property, placed in service is the date the asset is ready and available for its intended use. Even if the property is not being used, it is in service when it is ready and available for its intended use and VA assumes liability and the warranties begin on the asset. Placed in service date may not coincide with the completion of financial actions (e.g., payments).

and the asset will be capitalized within 90 days of the placed in service date. The date the asset is placed in service is also the date of acquisition. Refer to the section [090203, Construction WIP](#).

F. For PP&E that is acquired or constructed by a central VA organization, VA will transfer the assets to the responsible organization when the asset is placed in service. Refer to section 090502C and [Appendix E, Procedures for Transferring Assets within VA](#). The procedures provided in the appendix are general guidance and may be altered to accomplish a similar transfer as circumstances dictate. The purchasing or transfer-out finance activity and receiving finance activity will coordinate actions to ensure that PP&E is properly transferred and is not duplicated in FMS.

G. VA will capitalize its share of PP&E acquired in joint ownership projects with another entity when VA's portion of ownership meets the capitalization criteria.

090202.01 PERSONAL PROPERTY COMPONENTS. VA will capitalize personal property components that make up a system, e.g., a larger piece of equipment, or an asset, when the combined cost of the system meets VA's capitalization criteria and when either title passes to VA or when it is delivered and accepted by VA.

A. VA will record a (personal property) system serving more than one building or structure as one asset in the subsidiary records. The system cost will not be distributed to an associated asset, e.g., a building or structure.

B. When the planned system purchased meets the capitalization threshold, but is installed in phases, VA will capitalize each component, regardless of the individual cost, when either the title passes to or when it is delivered and accepted by VA. Refer to [090202, Capitalization](#). The system is recorded as one asset.

C. When the planned system purchased is expensed, VA will expense any subsequent components purchased.

090202.02 ADDITIONS OR IMPROVEMENTS (a.k.a., BETTERMENTS²⁴).

A. VA will capitalize additions and improvements (subsequent to the acquisition or construction of an asset) if a project meets the capitalization criteria (refer to section [090202A3](#) above) and if:

- The useful life of the associated asset is extended as a result of the expenditure (as opposed to maintaining its normal operating life); or
- The quantity of units/services produced from the associated asset is increased; or

²⁴ For accounting purposes, an improvement is also referred to as betterment.

- The quality of units/services produced from the associated asset is enhanced.

Refer to section 090206E, Subsequent Projects, for additional information on depreciation/amortization.

B. Any addition or improvement that does not meet the capitalization criteria and one of the above three conditions will be expensed.

090202.03 MAINTENANCE AND REPAIRS. Under normal conditions, maintenance and repairs are expensed because they are used to keep assets in an acceptable working condition regardless of costs. They may include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset for it to continue to provide acceptable services and achieve the expected life. In certain conditions, a maintenance or repair project may become larger than anticipated and be deemed an improvement to the asset.

When repairing a real property facility, the components of the facility may be repaired by replacement, and the replacement may involve upgrading to current building standards and codes. Such replacements (repairs) may or may not be an improvement for accounting purposes. The intent behind the replacement is crucial to the determination of whether a replacement is a repair or an improvement.

Repair by replacement that is expensed occurs when a facility structure or facility component has failed, is in the beginning stages of failing, or is no longer performing the functions for which it was designated. Replacements falling into this category will be expensed. A roof or a heating and air conditioning system that is replaced due to the failing of the existing asset will be classified as a repair and will be expensed, even if the replacement incorporates a better quality and longer life shingle or a more efficient heating and air conditioning unit.

However, if a replacement is undertaken to improve or expand the efficiency of an asset that was in good working order, then the replacement is an improvement. Repair by replacement does not include rebuilding entire structures within the same physical area (footprint).

A. Any maintenance that does not meet the capitalization criteria and one of the below conditions will be expensed.

B. VA will capitalize a maintenance or repair project that goes beyond the scope of maintenance and improves or enlarges the asset, meets the capitalization criteria outlined in [090202A3, Capitalization, for subsequent projects](#) and:

- The useful life of the associated asset is extended as a result of the expenditure; or
- The quantity of units/services produced from the associated asset is increased; or

- The quality of units/services produced from the associated asset is enhanced.

Refer to section [090206E, Subsequent Projects](#), for additional information on depreciation/amortization of maintenance or repair projects that meet the capitalization criteria.

090202.04 SEVERELY DAMAGED OR DESTROYED ASSETS. VA will expense or capitalize the cost to replace or restore severely damaged or destroyed assets, to include property considered damaged by acts of God, such as hurricanes, earthquakes, and floods, [according](#) to the following criteria.

A. VA will expense the cost of restoration or partial replacement of an existing asset that brings the asset to its original state of usefulness and does not meet the capitalization criteria defined in section [090202, Capitalization](#).

B. VA will capitalize the cost incurred to restore severely damaged property or to replace destroyed assets when the restoration or replacement meets the capitalization criteria (section [090202, Capitalization](#)). Refer to section [090207 DISPOSITION OF PP&E](#), for guidance on removing, retiring, or disposing of severely damaged or destroyed PP&E.

090202.05 ASBESTOS AND HAZARDOUS MATERIAL CLEAN-UP COSTS. VA will expense the cost of asbestos removal or other hazardous material removal, regardless of dollar amount. Refer to OFP Volume VI Chapter 8, *Environmental and Disposal Liabilities (EDL)*, for additional information on recording, disclosing, and reporting on EDL.

090203 CONSTRUCTION WORK IN PROCESS (WIP).

A. VA will fund ongoing construction projects from available construction appropriations. Major construction projects may be supplemented at times with funds derived from the Major Construction Working Reserve accounts. Refer to Volume II, Chapter 2I, *Major Construction Working Reserve Accounts*, for additional information.

B. VA will fund construction project costs incurred during the design and development phases from applicable VA construction appropriations and record the costs in the appropriate WIP accounts. Following are examples of costs that may be included:

- All materials, supplies and services applicable to the project;
- All items of installed capital equipment;
- Transportation costs applicable to materials, supplies, any installed capital-type equipment and any Government-owned equipment;

- The additional overhead or support costs that would not have been incurred were it not for the project;
- Travel and per diem related to applicable labor; and,
- The costs applicable to the operation and maintenance of Government-owned equipment. (Refer to section [090201.02, PP&E Costs](#).)

C. VA will maintain separate appropriated fund accounts, as authorized, for major and minor construction and non-recurring maintenance projects, and supporting documentation for the construction WIP on each project.

1. VA will carry forward available fund balances from year to year in its construction multi-year and no-year funds as appropriate.
2. VA will keep track of and manage carryover balances remaining after construction projects are completed to ensure unexpended fund balances are available for other construction project needs.
3. VA will not acquire or improve a real property facility (major construction projects) through a series of minor construction projects in lieu of a single major construction project, since incremental-type construction violates the intent of Congressional appropriations.

D. VA will notify and submit information on the status of construction projects to Congress as required. VA will submit its entire major construction project plans for medical facilities to Congress for approval, as required by 38 U.S.C. 8104(a) (2), prior to receiving appropriated funds.

E. VA will record constructed real property as construction WIP until it is placed in service.²⁵ The asset will be transferred to either capitalized or non-capitalized PP&E, as appropriate, within 90 days of being placed in service. The date the asset is placed in service is also the date of acquisition. Refer to section [090202, Capitalization](#), for additional information.

1. VA will record a construction project completed in multiple phases as “construction WIP” until the project phase is placed in service.
2. Each project may have one or more “placed in service” dates; each phase will then be depreciated separately over its estimated useful life.

²⁵ For constructed real property, “placed in service” is the date the asset is ready and available for its intended use. Even if the property is not being used, it is in service when it is ready and available for its intended use. Placed in service date may not coincide with the completion of financial actions (e.g., payments).

3. Each project may be comprised of multiple assets. Each asset, e.g., building, land improvement, other structure, will be recorded as a separate asset when it meets the capitalization criteria as identified in section [090202, Capitalization](#).

4. Personal property and equipment not capitalized and installed as part of a construction project should be recorded in the appropriate personal property records.

090204 LEASES. Leases include capital leases, lease purchases, or operating leases.

A. Capital Lease. VA may acquire PP&E under a capital lease arrangement; a capital lease may be for real or personal property. VA will ensure that a proposed capital lease meets the capitalization criteria (section [090202, Capitalization](#)) and any one of the following criteria²⁶:

- The lease transfers ownership of the property to VA at the end of the lease term;
- The lease contains an option for VA to purchase the leased property at a bargain price;
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property; or
- The present value of rental and other minimum lease payments, excluding the portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.

1. VA will capitalize the asset (leased property or equipment) in an amount equal to the liability for the capital lease at its inception, i.e., the net present value of the capital lease asset's minimum lease payments during the lease term (base and any amortized build-out) excluding executory costs (insurance, maintenance, and taxes for leased property whether paid by lessee or lessor). Refer to Volume VI, Chapter 18, *Capital Lease Liability*, for additional guidance on recording the liability and subsequent payments.

a. If the determined amount exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the liability should be the fair value.

b. If the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated.

²⁶ The last two bullets are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

2. VA will ensure the total costs of a capital lease are properly obligated in the year the lease agreement is made. A special appropriation is required for capital leases to enable payments over the life of the lease.

3. VA will ensure proposals to lease capital assets in the budget submission package meet the requirements in OMB Circular A-94.

B. Lease Purchase.²⁷ VA may acquire PP&E under a lease purchase arrangement. A lease purchase has the same basic criteria for a capital lease, but does not meet the capitalization dollar threshold of \$100,000 prior to October 1, 2013, or \$1,000,000 on or after October 1, 2013.

1. VA will record a lease purchase in the same manner as capital lease in section 090204 A.1. above, i.e., the asset (leased property or equipment) is recorded in an amount equal to the liability for the lease purchase at its inception. If the lease purchase meets the capitalization criteria (section 090202, *Capitalization*), the PP&E will be recorded as a capitalized asset. Refer to Volume VI Chapter 18, *Capital Lease Liability*, for additional guidance. Chapter 18, Appendix A, Budget Object Codes and Accounting Transactions, discusses the BOCs and VA Proforma entries.

2. Prior to purchasing PP&E under this method, VA should ensure that the lease purchase is in the best interest of VA and does not exceed the cost benefit of direct purchase or operating lease.

3. This process does not apply to similar purchases made through the Office of Acquisition and Logistics (OAL) Equipment Installment Purchase Program. Refer to the [OAL Finance Program website](http://www.va.gov/oal/government/finance/equipmentInstallmentPurchase.asp), <http://www.va.gov/oal/government/finance/equipmentInstallmentPurchase.asp>, for additional information and requirements.

C. Operating Lease.

1. To distinguish between a capital lease or lease purchase agreement and an operating lease, the following criteria will be used for defining an operating lease:

- Ownership and risk of ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period.
- The lease does not contain a bargain-price purchase option.

²⁷ Lease purchases result in VA receiving ownership of the property; however, the cost does not meet the minimum dollar capitalization threshold. Refer also to the definition, section 090634 Land Improvements.

- The lease term does not exceed 75 percent of the estimated economic lifetime of the asset.
- The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease.
- The asset is a general purpose asset rather than being for a special purpose of the Government and is not built to unique specification for the Government as lessee.
- There is a private-sector market for the asset.

2. VA will record an operating lease as an expense equal to the amount of the rental payments not to exceed 12 months unless the fund is available for a longer period.

090205 LEASEHOLD IMPROVEMENTS. VA will capitalize a leasehold improvement that meets VA's capitalization criteria. Refer to section [090202, Capitalization](#), for the criteria, and [090206F](#) for the amortization requirements.

A. Leasehold improvements may include improvements made to either a capital or operating lease.

B. Leasehold improvements to an operating lease are only capitalized if the operating lease renewals are determined to be "reasonably assured."²⁸

090206 DEPRECIATION/AMORTIZATION EXPENSE.

A. VA will record depreciation expense on PP&E, except land and land rights of unlimited duration, in a contra asset account - accumulated depreciation. The depreciation expense will be recorded monthly using the straight-line method of depreciation with salvage value set at zero and will be reflected on capital assets in the financial statements as prescribed by SFFAS No. 6 and OMB Circular A-136. Refer to sections [090201.01C1 \(Real Property\)](#) and [090201.01C2 \(Personal Property\)](#) for additional information.

1. The finance activity will work in conjunction with the engineering staffs or program managers to assign the useful life for real property, and with the OAD for personal property. The estimated useful life of certain real property is provided in [Appendix B, VA Real Property Estimated Useful Life Guide](#), or it may be derived from a recognized source²⁹ used by an administration or staff office. Engineering staffs or program managers will use the tables in [Appendix B](#) only as a guide in determining the useful life

²⁸ To assume a moderately sufficient extent or degree of certainty that an action will come to fruition or pass, to include as designated in the contract renewal periods.

²⁹ Examples may be IRS tables or developed from historical items.

of real property. Any deviation from the useful life in the [Appendix B](#) tables will be supported and provided to the finance activity for recording the transaction.

- The assigned useful life will reflect the primary element of the property for which costs may be determined.
- For projects containing component elements, the useful life assigned will reflect the component part which best represents the project as a whole.

2. The finance activity will validate the calculation of depreciation generated from the FAP subsystem and ensure depreciation has been recorded monthly for all capital assets.

B. VA will consider factors such as physical wear and tear and technological change (e.g., obsolescence) when determining estimated useful life and depreciation.

C. VA will record depreciation while the asset remains in service. The initial depreciation amount will represent all depreciation accrued from the date when the asset was accepted or placed into service.

D. VA will reflect any changes in the estimated useful life or salvage/residual value prospectively, i.e., in the period of change and future periods. No adjustments will be made to previously recorded depreciation or amortization.

E. Subsequent Projects.³⁰ VA will depreciate the cost of an addition or improvement that meets the capitalization criteria as identified in section [090202A3, Capitalization for Subsequent Projects](#) (for example, projects considered in [090202.02, Additions and Improvements](#), and [090202.04, Severely Damaged or Destroyed Assets](#)). The depreciation expense recorded is determined based upon the useful life of the associated asset as outlined below.

1. If the addition or improvement useful life is comparable to the useful life of the associated asset, the addition or improvement is depreciated over the remaining useful life of the associated asset.
2. If the addition or improvement does not extend the useful life of the associated asset and the useful life is determined to be less than the useful life of the associated asset, the addition or improvement is depreciated using the estimated useful life of the addition or improvement. The depreciation for the associated asset does not change.
3. If the addition or improvement extends the useful life of the associated asset, the depreciation of the asset, to include the addition or improvement cost, is computed using the revised remaining useful life of the associated asset.

³⁰ For accounting purposes, an improvement is also referred to as betterment.

F. VA will record amortization expense in a contra asset account - accumulated amortization, on PP&E assets such as capital leases, leasehold improvements, and software. The finance activity will validate the recording and calculation of amortization on a monthly basis.

1. Capital Leases: VA will amortize capital leases over the estimated useful life of the capital lease.

2. Leasehold Improvements.³¹ VA will amortize leasehold improvements meeting the capitalization criteria:

- Over the remaining useful life of the associated lease or the remaining estimated economic life of the improvements, whichever is less; and
- For not more than 40 years, even if the useful life of the asset is greater than 40 years.

3. VA will amortize capitalized software systematically over the estimated useful life of the software. Refer to OFP Volume III, Chapter 10, *Accounting for Internal Use Software*, for additional information.

090207 DISPOSITION OF PP&E. VA will properly dispose of PP&E assets when determined they are no longer needed, and the removal, retirement, or disposal (removal) is permanent.³²

A. VA management will first determine whether the PP&E removal from service is permanent or temporary.

1. Temporary removal from service is evidenced by activities such as continuing low-level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted. When the removal from service is determined to be temporary, there is no change in PP&E reported value, and depreciation continues. Any clean-up cost expense associated with a temporary removal will continue to accumulate.

2. For permanent removal, management must determine: (1) the asset's use is terminated and (2) there is evidence supporting the decision to permanently remove, retire, and/or dispose of the asset.

B. For permanent removal, to include severely damaged or destroyed PP&E, VA will remove the asset's acquisition cost and associated accumulated

³¹ Leasehold improvements may include improvements made to either a capital or operating lease.

³² Refer to FASAB TR #14, Implementation Guidance on the Accounting or the Disposal of General Property, Plant, and Equipment

depreciation/amortization from the facility or station's PP&E account and record the asset at its net realizable value. VA will transfer permanently removed PP&E to the United States Standard General Ledger (USSGL) Account 1995, General PP&E Permanently Removed but Not Yet Disposed.³³

1. No additional depreciation/amortization will be taken once assets are removed from PP&E accounts.
2. Any difference between the book value and the expected net realizable value will be recognized as a gain or loss.
3. Any unallocated/unamortized portion of the total cleanup cost estimate associated with the disposal, closure, and/or shutdown of the PP&E should be recognized in full.
4. When an asset, depreciated as part of a group, is permanently removed from service and no other assets within the group are permanently removed, no gain or loss is recognized. The asset is removed from PP&E at the original cost, and the associated accumulated depreciation is debited less any salvage value for the asset.
5. If during disposal, the asset or system is disassembled and sub-components are salvaged to be used for other purposes, VA will record these sub-components or spare parts as new assets.
6. Upon completion of the disposal, the PP&E asset will be written off from the financial records. Any difference in the asset's expected net realizable value previously recorded and the actual realized disposition³⁴ will be recognized as a gain or loss.

C. VA will recognize the final disposition date as of the date of transfer, sale, trade-in, abandonment, or demolition.³⁵

090208 PROCEEDS FROM SALE OF PP&E.

As a general rule, VA will not deposit any funds into its appropriations without statutory authority ([31 U.S.C. 3302](#), Custodians of Money). Violation of this rule constitutes an illegal augmentation of the appropriation.³⁶

090208.01 REAL PROPERTY PROCEEDS. As prescribed by [38 U.S.C. 8165, Use of Proceeds](#), VA may retain and use the proceeds from enhanced-use lease agreements

³³ Per TFM USSGL guidance for FY2013.

³⁴ As an example, the actual realized disposition may include cash received for scrap materials or fair value of items received in exchange for PP&E removed from service.

³⁵ The final disposition date is the date title and/or legal interest in the asset is transferred and/or ceased. For example, the transfer, sale, or title document is signed and executed by the appropriate authority.

³⁶ Refer to Volume II, Chapter 7D, Guidelines to Avoid Augmenting an Appropriation, for further explanation on such improper actions.

executed prior to December 31, 2023, (the authority, to enter into enhanced-use leases, was recently amended by [38 U.S.C. 8169, Expiration](#)) to include proceeds from a disposal of enhanced-use leased property. Refer to Volume II Chapter 2G, *Enhanced-Use Funds*, for additional guidance.

090208.02 PERSONAL PROPERTY PROCEEDS.

A. VA may exchange or sell similar items and may apply the exchange allowance or proceeds of sale in whole or in part payment for property acquired per [40 U.S.C. 503](#), Exchange or sale of similar items, in accordance with regulations prescribed by GSA, [41 C.F.R. 102-39, Replacement of Personal Property Pursuant to the Exchange/Sale Authority](#).³⁷

B. VA may also retain proceeds from sale of scrap or excess personal property and other property as authorized in [41 C.F.R. 102-38.295, Sale of Personal Property, titled, May we retain proceeds?](#) As an example of this authority, recycling revenue may be retained. Refer to Volume II, Chapter 7E, *Recycling Revenue*, for additional policy and authority.

C. VA may deposit proceeds from the sale of personal property used to purchase similar replacement equipment in Clearing (Suspense) Account 36F3845, Proceeds of Sales - Personal Property.³⁸ The proceeds will be available to VA for the fiscal year of the sale and one fiscal year thereafter and may only be used to purchase like replacement equipment in accordance with the requirements of the Federal Management Regulation, [41 C.F.R. 102-39.80, titled, What are the accounting requirements for exchange allowances or proceeds of sales?](#)

1. Proceeds are available to the station/facility or another station/facility within VA operating under the same appropriation. Transferring proceeds between two different appropriations for a similar purchase is not authorized; the transfer would be considered an augmentation of funds for the receiving appropriation.

2. Proceeds from the sale of personal property originally purchased with Supply Fund resources that were not reimbursed will be returned to the Supply Fund if similar replacement equipment is not purchased.³⁹ Proceeds will be returned to the Treasury Miscellaneous Receipts Account 3220 if the Supply Fund resources were reimbursed for the purchase.

3. Proceeds from the sale of personal property deposited to Clearing Account 3845 or not returned to Supply Fund resources will be transferred to Miscellaneous Receipts

³⁷ Refer to [41 C.F.R. 102-39.60](#), titled, *What restrictions and prohibitions apply to the exchange/sale of personal property?*, for proceeds that may not be retained unless a deviation is requested and approved or other specific authority exists, e.g., recycling revenue.

³⁸ Refer to Volume II, Chapter 2C, Clearing (Suspense) and Deposit Funds, for additional information.

³⁹ In accordance with [38 U.S.C. 8121, Revolving Supply Fund](#).

Account 3220 if similar replacement equipment is not purchased within the allowed time.

4. Proceeds from the sale of equipment that is not expected to be replaced will be deposited to either the Miscellaneous Receipts Account 3220 or, if appropriate, the Supply Fund.

090209 DEFERRED MAINTENANCE AND REPAIRS.

A. At the beginning of the fiscal year, VA will record the estimated cumulative total of deferred maintenance and repair projects for capitalized PP&E. This estimate will be adjusted quarterly as necessary. The costs will be recorded in the appropriate Assets and Miscellaneous Accounts Fund (AMAF) by major class of assets. If by the end of the fourth quarter (e.g., September 30, 20XX) the estimated cumulative total has changed from June 30, the finance activity will record the amount such that the September 30 balance shows the new cumulative total.

B. To maintain proper certification and provide a safe environment for Veterans, VA will ensure that deferred maintenance and repairs on medical equipment and critical facility equipment systems do not compromise their efficiency or effectiveness. Medical equipment and critical facility equipment systems will be maintained and managed in a safe and effective manner in accordance with Federal regulatory and legislative guidance, to include the Joint Commission on Accreditation of Healthcare Organizations.

C. The finance activity and engineering staffs or program managers must work together to ensure the estimate is calculated and recorded properly. VA, in general, uses the facility condition assessment (FCA) as the starting point for the deferred maintenance and repairs estimate although another condition assessment survey method may be used as long as it satisfies generally accepted government accounting standards for determining financial data reported for deferred maintenance and repairs. At a minimum, the FCA for a facility or station is conducted on a 3-year rotation.

For the FCA, the following will be presented for each major class of PP&E:

- Description of requirements or standards for acceptable operating condition;
- Changes in the condition requirements or standards;
- Asset condition⁴⁰; and

⁴⁰ Some examples of condition information may be averages of standardized condition rating codes, percentage of assets above, at, or below acceptable condition, or narrative information.

- Range or a point estimate of the dollar amount of maintenance and repairs needed to return the assets to their acceptable operating condition.

Refer to [Appendix F, Deferred Maintenance and Repairs Estimates and FCA Process](#), for additional information on preparing and recording the deferred maintenance estimates.

D. VA management may elect to present stratification of critical and non-critical amounts of maintenance needed to return each major class of asset to its acceptable operating condition. If management elects to make this disclosure, the disclosure will include management's definition of critical and non-critical maintenance. For any critical maintenance disclosed, management will provide both high and low estimates, which are based on the materiality of the estimated cost of returning the asset to the acceptable condition versus the total value of the corresponding asset.

090210 REPORTING PP&E AND DEFERRED MAINTENANCE AND REPAIRS.

A. VA will report PP&E in the Consolidated Financial Statements in accordance with OMB Circular A-136, *Financial Reporting Requirements*, including note disclosures.

1. VA will provide the following minimum information:

a. The major classes of PP&E appropriate for VA reporting, to include, but not limited to:

- Land and Improvements, including leased and owned;
- Buildings, including leased and owned (not including operating leases for building and clinics);
- Equipment, including information technology (IT) hardware;
- Other structures and capital leases;
- Construction work in process; and
- Internal use software, including capitalized and in development.

b. For each major class of PP&E:

- Costs, to include associated accumulated depreciation (as represented in the associated contra asset account for the period), and book value;
- Use and general basis of any estimates used;

- Estimated useful life;
- Method(s) of depreciation;
- Capitalization threshold(s), including any changes in threshold(s) during the period; and
- Restrictions on the use or convertibility of PP&E.

2. VA will maintain subsidiary records in accordance with VA's Records Control Schedule (refer to section [090201.03, Recording PP&E](#)). The subsidiary records will be reconciled monthly to the corresponding standard general ledger control account. Entries for both the general ledger and the subsidiary ledger will be made from the same source document and will be recorded in the same accounting month.

B. VA will report deferred maintenance and repairs estimates as required supplementary information (RSI), in accordance with SFFAS No. 6 and OMB A-136,⁴¹ to include:

1. Each major class of asset for which maintenance and repairs have been deferred, and
2. Method of measuring deferred maintenance and repairs.

C. VA will provide annual budget estimates for planned real property acquisitions in its budget submission and ensure any estimates for acquisitions under contract are consistent with obligations reported in Object Class 32.⁴²

0903 AUTHORITY AND REFERENCES

090301 [Chief Financial Officers \(CFO\) Act of 1990 \(31 U.S.C. Chapter 9\)](#)

090302 [Government Performance and Results Act of 1993](#)

090303 [Federal Financial Management Improvement Act of 1996](#)

090304 [31 U.S.C. Subtitle II, Chapter 15, Appropriation Accounting](#)

090305 [38 U.S.C. 8104, Congressional Approval of Certain Medical Facility Acquisitions](#)

⁴¹ Effective after September 30, 2014, SFFAS #42, Deferred Maintenance and Repairs, Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32, revises the RSI reporting requirements.

⁴² Refer to OFP Volume XIII Chapter 2, *Budget Object Codes*.

- 090306 38 U.S.C. 8118, Authority for Transfer of Real Property, Department of Veterans Affairs Capital Asset Fund
- 090307 38 U.S.C. 8165, Use of Proceeds, Enhanced-Use Leases of Real Property
- 090308 38 U.S.C. 8169, Expiration, Enhanced-Use Leases of Real Property
- 090309 40 U.S.C. 1452, Information Technology Management Reform Act of 1996 (Clinger-Cohen Act)
- 090310 41 U.S.C. Chapter 71, Contract Disputes (Act of 1978)
- 090311 Omnibus Budget Reconciliation Act of 1990 (OBRA)
- 090312 Federal Acquisition Regulation (FAR), Part 45, Government Property
- 090313 Federal Property Management Regulations, 41 C.F.R. Chapter 102, Part 102-38, Sale of Personal Property⁴³
- 090314 Executive Order No. 13327, Federal Real Property Asset Management, February 4, 2004 and as amended
- 090315 Statement of Federal Financial Accounting Standards (SFFAS) 6: Accounting for Property, Plant and Equipment
- 090316 SFFAS 14: Amendments to Deferred Maintenance Reporting: Amending SFFAS 6, Accounting for Property, Plant and Equipment, and SFFAS 8, Supplementary Stewardship Reporting
- 090317 SFFAS 32: Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4, Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government
- 090318 SFFAS 35: Estimating the Historical Cost of General Property, Plant and Equipment: Amending SFFAS 6, Accounting for Property, Plant, and Equipment, and SFFAS 23, Eliminating the Category National Defense Property, Plant, and Equipment
- 090319 SFFAS 40: Definition Changes Related to Deferred Maintenance and Repairs: Amending SFFAS 6, Accounting for Property, Plant, and Equipment

⁴³ Section 102-38.295 is specific to retaining sales proceeds.

090320 [FASAB Technical Release \(TR\) 13, Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment](#)

090321 [FASAB TR 14, Implementation Guidance on the Accounting or the Disposal of General Property, Plant, and Equipment](#)

090322 [Office of Management and Budget \(OMB\) Circular A-11, Preparation, Submission and Execution of the Budget](#)

090323 [OMB Capital Programming Guide, Supplement to Part 7 of OMB Circular A-11](#)

090324 [OMB Circular A-94, Discount Rates to Be Used in Evaluating Time-Distributed Costs and Benefits](#)

090325 [OMB Circular A-130, Management of Federal Information Resources](#)

090326 [OMB Circular A-136, Financial Reporting Requirements](#)

090327 [United States Standard General Ledger \(USSGL\), Treasury Financial Manual \(TFM\)](#)

090328 [Treasury Financial Manual \(TFM\) Volume I, Part 2, Chapter 4700, Section 4705.15b, Agency Reporting Requirements for the Financial Report of the United States Government](#)

090329 [OFP Publications Library](#)

090330 [OALC Consulting Support Service, Facility Condition Assessment](#)

0904 ROLES AND RESPONSIBILITIES

090401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and [38 U.S.C. 309](#). Responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

090402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Finance Officers, Chiefs of Finance Activities, Fiscal Officials, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

090403 The Office of Finance, Office of Financial Policy (OFP) is responsible for developing, coordinating, reviewing, evaluating, and issuing VA financial policies,

including those that impact financial systems and procedures for compliance with all financial laws and regulations. The Management and Financial Reports Service within OFP is responsible for preparing various comprehensive financial reports, such as those required by the President and the executive branch, including OMB/Treasury reports from the Hyperion (MinX) software. OFP works with the Office of Inspector General's independent contract auditors on VA's annual Consolidated Financial Statements audit and prepares and reviews the Consolidated Financial Statements, Notes, and Required Supplementary Information, etc.

090404 The Office of Budget (Budget) provides guidance and support to the Department's Administrations and Staff Offices on matters relating to budget formulation and execution. The ultimate objective of the formulation process is to ensure the timely, accurate and informed submission of VA's budget request to OMB and the President's budget request to Congress. Budget serves as the primary liaison with OMB and relevant congressional committees during the formulation process, defending and promoting VA's program plans and budget estimates before examiners and committee staff. In addition, Budget monitors VA's budget execution process, which starts with the apportionment process.

090405 The Office of Acquisition and Logistics (OAL) is responsible for the acquisition policy of all PP&E purchases (except major construction and real property) and supports VA's vast array of diverse programs and functions, involving expenditures for supplies and services. It also has a Governmentwide role in the supply management of medical supplies and non-perishable subsistence. Because of its Departmentwide and Governmentwide mission, as well as its role in protecting the integrity of the procurement and supply system, OAL is organizationally independent of the activities it serves.

090406 The Office of Asset Enterprise Management (OAEM) provides oversight in the capital asset arena and ensures a consistent and cohesive Department approach to capital asset management. OAEM serves as the principal policy office and business advisor regarding the acquisition, management and disposal of all VA capital assets. OAEM works collaboratively with all areas of the Department to ensure capital investments are based on sound business practices and principles and, most importantly, meet our Veterans' health care, benefits and burial needs.

090407 The Office of Construction and Facilities Management (CFM) provides design, major construction and lease project management, design and construction standards and historic preservation services. CFM acquires fee-simple or lessor (including easements, licenses, permits and leases) interest in real property; executes all VA major construction; is responsible for financial execution of major construction and lease projects and transfer of disbursement authority for minors; and reports to the Principal Executive Director, Office of Acquisition, Logistics, and Construction. CFM maintains a major construction working reserve account for each Administration, from which funds may be used to finance, in part, the construction, alteration, extension or improvement

of any facility under the jurisdiction of VA or for any of the purposes set forth in various sections of title 38 of the United States Code.

090408 The Office of Information and Technology (OIT) provides strategy and technical direction and guidance to ensure IT resources are acquired and managed for VA in a manner that implements various Federal laws and regulations, including the Clinger-Cohen Act and OMB Circular A-130. OIT is the steward of VA's IT assets and resources and is responsible for ensuring the efficient and effective operation of VA's IT Management System to meet mission requirements of the Secretary, Under Secretaries, Assistant Secretaries and other key officials. OIT directs its financial management, human capital management, IT asset management, procurement activities of IT resources, and links the budgeting process with IT programs. OIT manages VA's IT appropriations to ensure sustainment and modernization of VA's IT infrastructure.

090409 The Major Construction Working Reserve Board reviews and approves reprogramming requests to add funds to a project, increasing the amount originally appropriated. The Major Construction Working Reserve Board members⁴⁴ review all reprogramming requests for major construction funds from Major Construction Project Reserves, the Major Construction Working Reserve Fund, and line item balances at the request of the Chairperson. The Chairperson transmits requests electronically to other Board members. After review, Board members will respond electronically to the Chairperson with their concurrence or non-concurrence. Recommendations of the Board will be forwarded to the Executive Director, CFM for approval.

090410 Engineering staffs or program managers. The engineering staffs or program managers are responsible overall for ensuring that VA real property is maintained in a proper and safe manner to provide services for the benefit of Veterans and VA employees. For purposes of this chapter, engineering staffs or program managers are responsible for assisting the finance activity in determining the useful life of real property, for maintaining contact to ensure that the construction project status is provided for the proper accounting transactions affecting PP&E to be recorded, and for preparing and providing the deferred maintenance and repairs estimate with adjustments applicable to capitalized assets in accordance with the PP&E policy. The estimate will be provided to the finance activity, in either hard or soft copy, along with supporting documentation.

0905 PROCEDURES

090501 PP&E RECORDS. Refer to section 090201, PP&E, for overall VA guidance on recording PP&E.

⁴⁴For a list of members of the Board and additional information, refer to Volume II, Chapter 2I, Major Construction Working Reserve Accounts.

A. Reconstructing or Correcting PP&E Records. VA will take the following actions to reconstruct, correct, or complete asset records when they have been identified as not being recorded or recorded incorrectly. Refer to FASAB TR 13, Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment, for additional guidance and examples.

1. Gather all supporting documentation, such as purchase orders, contracts, invoices, receiving reports, etc.
2. Determine what data, if any, is available in the systems, e.g., FAP, AEMS/MERS, and FMS. If the historical cost is available in the system, use this cost for reconstructing or correcting the PP&E records.
3. Analyze the data to determine what method should be used for estimating the historical cost. For example, is the budget, expenditure, or contract information available?
4. Apply the methodology to determine the historical cost and related depreciation/amortization of the asset.
5. Record, modify, or delete the PP&E and related depreciation/amortization in the appropriate systems. Refer to [Appendix C, FAP Subsystem Procedures](#), for the appropriate transactions for deleting, correcting, or completing asset records.
6. Maintain all supporting documentation for the life of the asset and for three fiscal years after disposal or transfer of the asset, as required by VA's Records Control Schedule.

B. Reporting Estimates Used in Calculating Historical Costs. VA will disclose the use and basis for any estimates used in historical costs.

090502 CAPITALIZATION.

A. VA will capitalize PP&E constructed or acquired through purchase, transfer, exchange or trade-in, donation, devise, or judicial process, excluding forfeiture, at the appropriate cost when the capitalization threshold is met as defined in sections [090201.03, Recording PP&E](#), and [090202, Capitalization](#), and subsections. Timely capitalization of the asset occurs in accordance with the following:

1. For personal property, VA will record the asset within the fiscal month, but no later than the next fiscal month, from the earlier of either the date when the title passes to VA or when the asset is delivered and accepted by VA. The specific contract terms may dictate when VA will take title.

2. For acquired real property (e.g., land, buildings) VA will record the asset within the fiscal month, but no later than the next fiscal month, after the property is placed in service.⁴⁵

3. For constructed real property, VA will record the asset as construction work in process until it is placed in service.⁴⁶ The asset will be recorded within the fiscal month, but no more than 90 days of being placed in service. The date of acquisition is the date the asset is placed in service.

B. Finance activities will coordinate with the various engineering staffs or program managers to obtain the information needed to affect capitalization. Such information includes the identification of the asset to be capitalized, the acquisition date (the date the asset is placed in service), and the useful life of the asset. Refer to [Appendix G, Examples of Capitalization Request](#), which may be used to coordinate this information.

1. Engineering staffs or program managers will provide monthly progress reports to the appropriate finance activity containing the project status, cost of each asset, the date the asset was placed in service, the useful life, and any subsequent acquisition (addition or improvement), disposal, or transfer impacting the recorded value of the item.

2. Engineering staffs or program managers will review the cost components of WIP construction projects to determine the amounts to be capitalized or expensed.

3. Engineering staffs or program managers will coordinate with the appropriate finance activity on a monthly basis to ensure proper oversight of completed construction projects is occurring and is recorded in a timely manner.

C. Refer to Appendix E, Procedures to Transfer PP&E within VA, for additional guidance when a station purchases PP&E for one or more other VA stations. The procedures listed in the appendix are general guidance and may be altered to accomplish a similar transfer as circumstances dictate. The purchasing and receiving finance activities will coordinate actions to ensure that PP&E is properly transferred and is not duplicated in FMS.

090503 CONSTRUCTION WIP. Finance activities will work closely with the various engineering staffs or program managers on construction projects to ensure project costs are being reported, as required, and to know when a project may be completed. In this way, finance activities will have an understanding of when the project costs likely will be

⁴⁵ For acquired real property, “placed in service” is the date VA assumes liability and the warranties begin on the asset. For land, the date of delivery or deed execution represents the acceptance date.

⁴⁶ For constructed real property, “placed in service” is the date the asset is ready and available for its intended use. Even if the property is not being used, it is in service when it is ready and available for its intended use. Placed in service date may not coincide with the completion of financial actions (e.g., payments).

capitalized and the underlying assets recorded as PP&E. Refer to section [090203, Construction WIP](#), for overall VA guidance.

A. Finance activities, engineering staffs and program managers over the various construction projects will maintain sufficient communications to ensure Finance officials have the proper information to make the proper and timely accounting transactions affecting PP&E.

B. Finance activities will obtain project status reports, capitalization memos, and other documents pertinent to construction projects in progress from engineering staffs or program managers (See paragraph 090502 B).

C. Finance activities will receive information from engineering staffs or program managers when projects have been placed in service. The accumulated costs in standard general ledger (SGL) 1720 Work in Process will either be expensed or capitalized and transferred to the appropriate general ledger account and Assets and Miscellaneous Accounts Fund (AMAF).

1. To ensure completed projects are transferred from WIP in a timely manner, engineering staffs or program managers will review the inventory of WIP projects to determine if the projects should be closed into the appropriate capitalized SGL account.

2. To ensure all projects are reviewed, engineering staffs or program managers will consider the following attributes:

- Projects with expired completion dates;
- Projects with zero outstanding balances;
- Projects with status labeled closed; and
- Projects already placed in service.

D. Depending upon the type of asset, such as land, building and improvements, VA will use various FMS transaction types and the appropriate transaction code to enter the assets into the FAP Subsystem.

0906 DEFINITIONS

090601 Accumulated Depreciation. The total amount of depreciation recorded since the purchase of an asset.

090602 Amortization. Refers to expensing the acquisition cost minus the residual value of intangible assets in a systematic manner over their estimated useful economic lives so as to reflect their consumption, expiration, obsolescence or other decline in value as a result of use or the passage of time.

090603 Assets. Tangible or intangible items owned by the Federal government which have probable economic benefits obtained or controlled by a Federal government entity.

090604 Automated Engineering Management System/Medical Equipment Reporting System (AEMS/MERS). Official VA system used by field stations to maintain, manage and account for personal property. AEMS/MERS is essentially an equipment inventory system containing information for both capitalized personal property and expensed personal property.

090605 Betterment. Also used as a synonym for improvement. An enhancement, renovation, expansion, or reconstruction of an existing asset to improve operating performance which may or may not increase the useful life beyond that of the associated asset. A betterment is distinguished from maintenance and repair which merely have the effect of keeping an asset in an efficient operating state without expected added future benefits.

090606 Book Value. The net amount at which an asset or liability is carried on the books of account (also referred to as carrying value or amount). It equals the gross or nominal amount of any asset or liability minus any allowance or valuation amount.⁴⁷

090607 Buildings. Permanent or temporary structures enclosed within exterior walls and a roof, and including all attached apparatus, equipment, and fixtures that cannot be removed without cutting into ceiling, floors, or walls.

090608 Building Service Equipment. Government-owned equipment and fixtures which are permanently installed in or attached to buildings and structures and become a part of the real property for the purpose of rendering the building or structure usable or habitable. Includes items normally required for the functional use of buildings and structures, such as heating and lighting fixtures, elevators, vaults, fire alarm systems and air-conditioning systems, etc., which, when installed, become an integral part of real property.

090609 Capital Leases. Installment purchases that will be recorded and capitalized when the purchase price satisfies the Department's capitalization criteria. In other words, leases transfer substantially all the benefits and risks of ownership to the lessee. A capital lease may be for real or personal property. The amount to be capitalized is the amount recognized as a liability for the capital lease. A lease satisfying any one of the following criteria will be recorded as a capital lease: (1) the lease transfers ownership of the property to the Department by the end of the lease term; (2) the lease contains an option for VA to purchase the leased property at a bargain price; (3) the lease term is equal to or greater than 75 percent of the estimated economic life of the

⁴⁷ Valuation methods and bases are numerous and varied; and may be expressed quantitatively and in monetary terms. Application may be made to a single asset, a group of assets or an entire enterprise, as determined by various bases and methods.

leased property; or (4) the present value of rental and other minimum lease payments equals or exceeds 90 percent of the FMV of the leased property. A lease not satisfying one of the four descriptions will be classified an operating lease and will not be capitalized.

090610 Capitalize. To record an expenditure or contribution which may benefit a future period as an asset rather than to treat the expenditure as an expense of the period in which it occurs.

090611 (Items of) Capital Nature. Assets whose conditions in the FCA would be corrected by projects with associated costs meeting the capitalization criteria.

090612 Clean-up Costs. Costs associated with removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.

090613 Component. A smaller, individual part of a larger asset, system, or entity. While a component may be self-contained, it may or may not be able to stand on its own. For example, an extension arm purchased for a Magnetic Resonance Imaging (MRI) unit may be a self contained unit, but it does not stand on its own in usefulness. It has no use unless it is part of the larger system.

090614 Condition Assessment Survey. Periodic inspections of Government-owned property to determine the current condition and estimated cost to bring the property to an acceptable condition. Condition assessment surveys should be based on generally accepted methods and standards, consistently applied.

090615 Deferred Maintenance and Repairs. Maintenance and repairs not performed when they should have been and were delayed for a future period. The consequences of not performing regular maintenance and repairs may include increased safety hazards, poor service to the public, higher costs in the future and inefficient operations.

090616 Depreciation. The rational and systematic allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over the estimated useful life of the asset.

090617 Depreciation Expense. The portion of an asset's depreciation cost is transferred to an expense account in each fiscal period during the asset's useful life.

090618 Disposition. When assets of an entity are removed either by sale, trade or discard.

090619 Estimated Economic Life (of Leased Property). The estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

090620 Expendable. Component or part for which no authorized repair procedure exists, and/or the cost of repair would exceed cost of its replacement. Expendable items are usually considered to be consumed when issued and are not recorded as returnable inventory. An item generally has a life expectancy when put into use of less than two years. Items purchased for permanent release to beneficiaries, such as wheelchairs and orthopedic and prosthetic appliances, are also considered expendable items.

090621 Expense. Outflows or other using up of assets and/or incurrence of liabilities (or a combination of both) during a period from providing goods, rendering services or carrying out other activities related to VA's programs and missions, in which the benefits do not extend beyond the present operating period.

090622 Facility Condition Assessment (FCA). FCAs include correction estimates for VA-owned land and buildings. Land and buildings, including major systems, found to be in poor condition, critical condition, or at the end of its useful life-cycle are identified in the FCA reporting process. Correction costs do not include those major systems which are rated in fair or better condition.

090623 Fair Value. A value or price as determined by the following: 1) a bona fide bargain between well-informed buyers and sellers, usually over a period of time; 2) for which a PP&E item can be bought or sold in an arm's length transaction between unrelated parties; 3) a sale between a willing buyer and a willing seller, other than in a forced or liquidation sale; or 4) an estimate or appraisal in the absence of sales or quotations.

090624 Feasibility Study. An evaluation and analysis of the potential of the proposed project which is based on extensive investigation and research to support the process of decision making. Feasibility study costs are expensed and never capitalized.

090625 Financial Management System (FMS). General Ledger Module is used by the finance activity to record, process, reconcile and report on transactions related to property, plant and equipment.

090626 Fixed Assets Subsystem Package (FAP). This subsystem is VA's fixed asset subsidiary ledger for financial operations. FAP maintains the original and subsequent value of assets and works with other FMS subsystems to support fiscal and risk management as well as standard reporting.

090627 General Property, Plant and Equipment (PP&E). Tangible assets which (1) have an estimated useful life of two or more years, (2) are not intended for sale in the ordinary course of operations and (3) are intended to be used or available for use by the entity. PP&E includes land and land rights owned by the Federal Government acquired for or in connection with items of PP&E.

090628 Goods. Tangible products produced for customers.

090629 Hazardous Waste. A solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed.

090630 Heritage Assets. Property, plant and equipment unique for one or more of the following reasons: historical or natural significance; cultural, educational or aesthetic value; or significant architectural characteristics.

090631 Historical Cost. Initially, the amount of cash (or its equivalent) paid to acquire an asset; subsequent to acquisition, the historical amount may be adjusted for amortization.

090632 Improvement. An enhancement, renovation, expansion, or reconstruction of an existing asset to improve operating performance which may or may not increase the useful life of the associated asset. Also used as a synonym for betterment. An improvement is distinguished from maintenance and repair, which merely keep an asset in an efficient operating state without expected added future benefits.

090633 Internal Use Software. Software that may be commercial off-the-shelf software, internally developed software with/without a contractor's assistance, or contractor-developed software. Software includes the application and operating systems, programs, procedures, rules and any associated documentation pertaining to the operation of a computer system or program.

090634 Land developments. A permanent change to the land or other related cost associated to the land. Land developments are costs such as clearing, leveling, land surveys, titles, etc. that are included in the total cost for land. Land development costs that are attributed to constructing a building or other structure are generally applied to the cost of that asset. Land development costs are not recorded as a separate asset.

090635 Land Improvements. A limited-life alteration, modification, or improvement that enhances the land, but loses value over time. Examples include but are not limited to fencing, paving, gravel for roadbeds, culverts, sidewalks, heated pavement, retaining walls, landscaping, lawn sprinkler systems, and underground utilities (e.g., sewer systems, water lines).

090636 Leasehold Improvements. Structural changes, such as additions, alterations, remodeling or renovations, made to leased property (capital or operating lease) to make the property more suitable for business needs. Upon lease termination, such improvements normally become the property of the owner (lessor) without any cost or obligation. Leasehold Improvements includes VA's funded costs of improvements to

leased buildings, structures and facilities, and easements and right-of-ways, where VA is either the lessee or the cost is charged to a VA contract.

090637 Lease Purchase. Lease contract in which the lease payment is applied to the purchase price of the leased asset or property. When the full price is paid, the title to the item is transferred from the seller or owner (the lesser) to the buyer (the lessee). A lease purchase differs from a lease option in that it is a legally binding commitment to purchase the property rather than just an option.

090638 Maintenance and Repairs. Activities directed toward maintaining an asset in a useable, acceptable and original condition. Activities include preventive maintenance; normal repairs; replacement of parts, systems, or components; and other activities needed to preserve the asset to continue providing acceptable services and achieving its expected life. Maintenance and repairs, as distinguished from capital improvements, excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

090639 Major Construction Projects. A construction, alteration, extension or improvement of any VA facility, including planning, architectural and engineering services, construction management services, maintenance or guarantee period services costs associated with equipment guarantees provided under the project, services of claims analysts, offsite utility and storm drainage system construction costs and site acquisition, where the estimated cost of the project is greater than \$10,000,000 or where funds for a project were made available in a previous appropriation.

090640 Major Construction Working Reserve Accounts. Unobligated balances or excess monies remaining from projects after their completion which may be redirected to other on-going construction projects approved by the Major Working Reserve Board and the Secretary based on amount needed.

090641 Major Medical Facility Construction Projects. A project for the construction, alteration, or acquisition of a medical facility involving a total expenditure of more than \$10,000,000, but such term does not include an exchange acquisition.

090642 Minor Construction Projects. A construction, alteration, extension or improvement of any VA facility, including planning and assessments of needs which may lead to capital investments, architectural and engineering services, maintenance or guarantee period services costs associated with equipment guarantees provided under the project, services of claims analysts, offsite utility and storm drainage system construction costs and site acquisition or for any of the purposes where the estimated cost of the project is \$10 million or less. A series of minor construction projects that exceed the statutory threshold may not be used in lieu of a single major construction project, since incremental-type construction violates the intent of Congressional appropriations.

090643 Net Book Value. The recorded cost of an asset less any recorded accumulated depreciation.

090644 Net Realizable Value. The estimated amount recovered from selling or any other method of disposing of an item less estimated costs of completion, holding and disposal.

090645 Non Building Service Equipment. Government-owned equipment required by an organization to properly meet its mission, but is not required for the purpose of rendering a building or structure usable or habitable. Non building service equipment may include medical equipment, computer equipment, etc.

090646 Non-expendable. An item which: (1) retains its identity throughout its useful life and whose dollar value is high enough to warrant accountability (e.g., copy machines, medical equipment and IT equipment); or (2) is of a sensitive nature, which requires accountability regardless of cost, e.g., USB flash drives. Non-expendable property generally has a useful life of 2 or more years.

090647 Non-Recurring Maintenance (NRM) Projects. Projects designed to correct, replace, upgrade, and modernize existing infrastructure and utility systems. Projects may include, but are not limited to, patient privacy corrections, life safety corrections, facility condition deficiency corrections, utility system upgrades, mental health improvements, window replacements, replacements of aging heating, ventilation and air conditioning systems and components, boiler system upgrades, and water conservation measures.

090648 Operating Lease. An agreement conveying the right to use property for a limited time in exchange for periodic rental payments, or the terms do not meet any one of the requirements for a capital lease.

090649 Other Structures (or Other Real Property). Another structure or asset not classified as another real property category. The asset may be a structure or system serving multiple assets and is not building service equipment. These assets are distinguished from buildings either by the purpose or the build; they are not meant for personnel employment or abode. Examples include parking garages, open-sided storage sheds, water towers, committal shelters, generators, and surveillance systems.

090650 Personal Property. Property, other than real property, which is owned by VA, is moveable and not affixed or associated to land. Personal property includes VA-owned expendable (Budget Object Code 26, Supplies and Materials) and other non-expendable controlled property (Budget Object Code 31, Equipment).

090651 Placed in Service for Real Property. The date the real property is ready and available for its intended use. Even if the asset is not being used, it is in service when it

is ready and available for its intended use.⁴⁸ Placed in service date may not coincide with the completion of financial actions (e.g., payments). For acquired real property, the placed in service date is the date VA assumes liability and the warranties begin on the asset. For land, the date of delivery or deed execution represents the acceptance or placed in service date.

060652 Real Property. All land, buildings, facilities or other structures, firmly attached, and integrated equipment owned by VA. Integrated equipment includes those items permanently installed or attached and that have become a part of the building or structure for the purpose of making the building habitable or usable.

090653 Recognize. To determine the amount, timing, classification and other conditions precedent to the acceptance and entry of a transaction. Hence, to give expression on the books of account; said of transactions.

090654 Required Supplemental Information (RSI). Financial information subject to limited audit procedures presented as supplemental information in VA's consolidated financial statements.

090655 Reasonably Assured. To assume a moderately sufficient extent or degree of certainty that an action will come to fruition or pass, to include as designated in the contract renewal periods.

090656 Salvage Value. The expected net recovery when the asset is sold or removed from service.

090657 Subsequent Project. A project completed after the associated asset is purchased and recorded. Examples may be additions or improvements, maintenance and repairs, restoration, renovation, etc. Each project must be evaluated to determine whether the project is expensed or capitalized. Refer to the appropriate subsections in 090202, Capitalization.

090658 Supplies and Materials (Operating). An inventory category composed of tangible personal property to be consumed in normal business operations.

090659 Tangible Asset. Property that can be touched and includes both real and personal property.

090660 Useful Life (Accounting basis). The normal operating life of an asset in terms of usefulness to the owner.

⁴⁸ "Physically complete" is the engineering terminology that is the same as "ready and available for its intended use."

090661 Work in Process (WIP) (or Work in Progress). Temporary holding account used to track costs during the design and construction/development of PP&E and represents an asset as part of the financial statements. Includes costs of direct labor, direct material, and overhead incurred in the construction of real property for which the agency will be accountable. The costs remain in the WIP general ledger account until the PP&E is accepted by VA and placed in service. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. WIP is an extension of real and personal accountable property; its costs accumulation is governed by the policy for PP&E.

0907 RESCISSIONS

090701 OFP Volume V, Chapter 9, *General Property, Plant and Equipment*, May 2012

0908 QUESTIONS

Questions concerning these financial policies and procedures should be directed to:

VHA	VHA CFO Accounting Policy (10A3A) (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
CFM	Office of Construction and Facilities Management
All Others	OFP Accounting Policy (Outlook)

0909 REVISIONS

Section	Revision	Office	Effective Date
0901	Removed sentence on VA organizational structure.	APPS (047GA)	October 2013
0902 C1	Clarified fire alarm to fire alarm system. Reorganized section about “other structures” and amended clarifying footnote.	APPS (047GA)	October 2013
0902 C2a (2).	Moved section on low cost non-expandable items from section (1) to (2).	APPS (047GA)	October 2013
090201.02	Added statement from SFFAS 6 regarding cost of PP&E to include all cost incurred to bring to form, etc. Added statement under Not PP&E costs for costs related to continuing operations with an example.	APPS (047GA)	October 2013

Section	Revision	Office	Effective Date
090201.03	Added clarification that documentation will be maintained for both capitalized and non capitalized assets. Removed the word fiscal for holding documentation for assets, to be consistent with NARA instructions, Schedule 8.	APPS (047GA)	October 2013
090201.03	Added that documentation may be retained either electronically or hardcopy.	FPWG	October 2013
090201.03 A3, 090203E & 090502	Changed 3 months to 90 days. Added clarification in the paragraph and footnote for when to capitalize constructed real property, related to warranties.	APPS (047GA)	October 2013
090201.03 B	Reorganized paragraphs and added footnote with an example for calculating PP&E cost when a trade-in is included in a purchase of new equipment.	APPS (047GA)	October 2013
090202 & 090204	Updated the capitalization threshold to \$1,000,000 for on or after October 1, 2013.	APPS (047GA)	October 2013
090204	Made a technical correction to exclude executor costs.	APPS (047GA)	October 2013
090202A3.090202.02, & 0905	Clarified change in assets' useful life.	APPS (047GA)	October 2013
090207B2.	Removed sentence about "unrealized gain" to be consistent with SFFAS 6.	APPS (047GA)	October 2013
090208.01	Updated to reflect new legislation allowing use of proceeds from enhanced-use lease agreements executed prior to December 31, 2023.	APPS (047GA)	October 2013
0903 Authority and References	Updated	APPS (047GA)	October 2013
090407 & 090204 C	Corrected lesser to lessor.	APPS (047GA)	October 2013
090503 Construction WIP	Added clarification regarding documentation from Engineering Service.	APPS (047GA)	October 2013
090605 Betterment	Added clarifying phrase.	APPS (047GA)	October 2013
Feasibility Study	Added 090624 definition of Feasibility study.	APPS (047GA)	October 2013

Section	Revision	Office	Effective Date
090625 FMS	Clarified definition.	APPS (047GA)	October 2013
090639 Maintenance and Repair	Added clarifying phrase.	APPS (047GA)	October 2013
090649 Other Structures	Added clarifying phrase.	APPS (047GA)	October 2013
090651 Placed in Service	Clarified the definition applied to real property.	APPS (047GA)	October 2013
Appendix A	Reorganized introduction and updated policies.	APPS (047GA)	October 2013
Appendix D	Added more examples related to the threshold change.	APPS (047GA)	October 2013
Appendix E	Updated for Energy Projects with leased buildings (Leasehold Improvements).	APPS (047GA)	October 2013
Appendix E	Deleted reference to Real Property when referring to "Other Structures."	APPS (047GA)	October 2013
Appendix G	Updated the second memo to the new threshold and included a better example.	APPS (047GA)	October 2013

APPENDIX A: GUIDANCE ON MANAGING VA ASSETS

A. Federal Guidance:

Guiding Principles for Federal Leadership in High Performance and Sustainable Buildings. This Federally-mandated “green” guidance document applies to sustainability in existing VA buildings including renovations, maintenance and repairs, and leased space as well as new construction. The Federal guidance is being updated in 2013 under the same title.

B. VA Guidance:

1. Pertinent guidance from Office of Asset Enterprise Management (OAEM), OAEM Policy Web Site: <http://www.va.gov/oaem/> and Office of Acquisition, Logistics and Construction, [OALC Consulting Support Service, Facility Condition Assessment: http://www.va.gov/oalc/](http://www.va.gov/oalc/)
[FY 2008 Asset Management Plan, \(OAEM\)](#)

2. VA Directives and Handbooks: <http://www.va.gov/vapubs/index.cfm>

- VA Directive 7816, *Lease Management*
- VA Handbook 7816, *Lease Management Procedures*
- VA Directive 7633, *Managing Underutilized Real Property, Including Disposal*
- VA Handbook 7633, *Managing Underutilized Real Property, Including Disposal*
- VA Handbook 7348, *Utilization and Disposal of Personal Property*
- VA Directive 7002/1, *Logistics Management Procedures*
- VA Handbook 7002/1/, *Logistics Management Procedures*
- VA Directive and Handbook 0011, *Strategic Capital Investment Planning (SCIP) Program*
- VA Directive 4085, *Capital Asset Management*
- VA Directive 0055, *Energy and Water Management Program*
- VA Directive 0057, *Environmental Management Program*

APPENDIX B: VA REAL PROPERTY ESTIMATED USEFUL LIFE GUIDE

This appendix is provided as a guide when estimating useful life for *[accounting]* depreciation of Real Property, including land improvements, buildings, and fixed equipment. The useful life is provided as an average only. For each asset, the useful life will depend upon the type and/or construction used. In accordance with section 090201 C. 1., engineering staffs or program managers will provide support for deviations to the finance activity for recording the transaction. Although many of the assets listed in the table are generally used for recording subsequent projects that meet the capitalization criteria (Section 090202), the useful life may also be used for recording the initial asset.

Estimated Useful Life for Calculating Depreciation (In Years)	
Item / Description	Useful Life
Architectural	
Automatic door	10
Bench, bin, cabinet, counter, shelving built-in	15
Cabinet, biological safety	15
Canopies	15
Carpentry work	20
Ceiling finishes	12
Ceramic tile	20
Cubicle track	20
Designation signs	10
Drapery track	10
Drilled piers	40
Floor finishes	10
Folding partitions	10
Hood, fume	15
ICU-CC counters	15
Interior finish	15
Lockers, built-in	20
Mailboxes built-in	20
Millwork	20
Nurses' counter	20
Overhead door	10
Painting, new construction	10
Partitions, interior	20

Estimated Useful Life for Calculating Depreciation (In Years)	
Item / Description	Useful Life
Pass-through boxes	20
Patient's wardrobes and vanities	20
Sink and drain board	20
Storefront construction	20
Toilet partitions	20
Electrical	
Clock System, central	15
Conveying system	15
Doctors in/out register	20
Door closing devices	10
Electric lighting and power, Conduit and wiring	25
Elevator	
Dumbwaiter	20
Freight	20
Passenger, high-speed, automatic	20
Emergency light system	15
Escalator	20
Feed wiring	20
Fire alarm system	15
Fixtures	10
Generator set	20
Intercom system	15
Magnetic door holders	10
Nurse call system	15
Paging system	15
Passenger, other	20
Switch gear	30
Telephone system	10
Television antenna system	10
Transformer	
Oil Filled	30
Dry	15
Yard lighting	15

Estimated Useful Life for Calculating Depreciation (In Years)	
Item / Description	Useful Life
Heating and Air Conditioning	
Boiler smokestack, metal	30
Clean air equipment	20
Cooling tower	
Metal/wood	20
Large over 20 tons	20
Medium 5-19 tons	15
Small, under 5 tons	10
Duct work	20
Fan, air handling & vent	20
Furnace, domestic type	15
Heat & air conditioning system, all equipment & units	
Boiler	30
Compressor, air	20
Condense tank	20
Condenser	20
Controls	20
Cooler/humidifier	20
Heating, ventilating & air conditioning system	20
Incinerator, indoor	10
Oil storage tank	30
Piping	25
Precipitator	15
Pump	25
Radiator, cast iron	30
Radiator, finned tube	20
Solar heat equipment	20
Plumbing	
Fire protection in hoods	10
Laboratory plumbing, piping	50
Oxygen, gas, air, piping	30
Oxygen storage tanks	20
Plumbing-fixture	20
Plumbing-piping	50
Plumbing-pump	50

Estimated Useful Life for Calculating Depreciation (In Years)	
Item / Description	Useful Life
Pneumatic tube system	15
Sewerage, composite	50
Sprinkler & fire:	
Fire pump	25
Protection system	50
Smoke & heat detectors	15
Sprinkler system	50
Tank and tower	50
Sterilize, built-in	20
Sump pump & sewage	
Piping	50
Ejector	10
Vacuum cleaning system	15
Water heater, commercial	15
Water storage tank	50
Water wells	50
Site work	
Bumpers	5
Culverts	18
Fencing	
Brick or stone	25
Chain link	15
Wire	10
Wood	8
Irrigation system (characterized as a drip system and only used in certain regions)	10
Lawn sprinkler system	15
Parking lot gate	5
Parking garage or structure	20
Sidewalks or pathways	
Gravel	5
Asphalt	12
Concrete	15
Heated pavement	15

Estimated Useful Life for Calculating Depreciation (In Years)	
Item / Description	Useful Life
Roadways and parking	
Gravel	5
Asphalt	12
Concrete	15
Retaining wall	25
Shrubs, lawns, trees	10
Sign	12
Snow melting system	10
Turf, artificial	5
Underground utilities, including sewer and water lines	25
Structural	
Bridges	40
Columbaria ⁴⁹	10
Committal Shelter	20
Computer flooring	15
Flagpoles	20
Loading docks	15
Building Masonry	
Reinforced concrete frame	50
Steel frame, fireproofed	50
Steel frame not fireproofed	30
Reinforced concrete, commercial design	50
Roof covering	15
Sewage treatment plant	20
Structure	
Masonry	30
Wood	20
Water treatment plant	30

⁴⁹ Unlike other assets, the useful life of a columbaria for depreciation purposes is based upon the period of time the columbaria is actively used for interments and not the operating life for usefulness. On average, a columbaria is filled within 10 years and is no longer available for additional interments.

APPENDIX C: FIXED ASSET PACKAGE SUBSYSTEM PROCEDURES

Note: On-hold pending a system change for FAP/FMS processing.

The procedures in the embedded Word document were previously included in the Fixed Asset Package Subsystem Manual. The index is provided to assist users in identifying the appropriate section(s) for reference. For overall PP&E policy including determination, costs, capitalization and expense, maintenance and repairs, etc., refer to appropriate sections in the chapter. The FAP procedures are not meant to provide policy, but to provide recommendations on how to record PP&E in the system.

A. FAP Subsystem Procedures Document

[Placeholder for FAP Word document.]

B. FAP Table of Contents *[Placeholder]*

APPENDIX D: EXAMPLES OF CAPITALIZATION VERSUS EXPENSE

A: Items Generally Capitalized: Assumed to meet the capitalization criteria (Refer to 090202A).

1. Addition of a new wing on a medical center. (Refer to 090202.02.)
2. Renovation of a patient wing to an x-ray, MRI, etc. wing. (Refer to 090202.02.)
3. A severely damaged or destroyed building reconstructed following a natural disaster. (Refer to 090202.04.)
4. An installation or replacement of building service equipment with larger or enhanced capacity, such as: (Refer to 090202.02 and .03.)
 - An air quality system;
 - An HVAC system; or
 - A security system to include fire, carbon, and security, or covers areas not previously covered.
5. A replacement of medical equipment that is an improvement with greater capability than the old equipment. (Refer to 090202.02 and .03.)
6. An installation or replacement of land improvements with larger or enhanced capacity, such as: (Refer to 090202.02 and .03.)
 - A sewer system;
 - An irrigation system; or
 - A replacement of a gravel parking lot with an asphalt cover.
7. An installation or replacement of landscaping, major in nature: (Refer to 090202.02 and .03.)
 - Retaining walls or fencing;
 - Series of sidewalks; or
 - Courtyards.
8. A major renovation or addition to a heritage asset used predominantly for Government service, a.k.a., a multi-use heritage asset. (Refer to 090202.02 and Volume III Chapter 6, Heritage Assets.)

B: Items Generally Expensed: Assumed not to meet the capitalization criteria.

1. An installation or replacement of landscaping, minor in nature: (Refer to 090202.02 and .03.)
 - Regrade;

- Reseed; or
 - Resolution of drainage problems.
2. Repavement of a parking lot with similar cover. (Refer to 090202.02 and .03.)
 3. Repair of a roof or replacement of shingles in poor condition. (Refer to 090202.03.)
 4. Maintenance and repair of building exterior: To be considered maintenance and repairs, the exterior is only being brought to the original state of usefulness. (Refer to 090202.03.)
 - Replace coping stones;
 - Resolution of leak issue;
 - Tuck point brick veneer; or
 - Scrape and paint.
 5. Maintenance and repair of building Interior. To be considered maintenance and repairs, the interior is only being brought to the original state of usefulness. (Refer to 090202.03.)
 - Replace selected ceiling tiles, stair treads;
 - Painting; or
 - Repairing drywall.
 6. Replacement of an emergency electrical system with a new system but one that is only up to code, not a significant upgrade. (Refer to 090202.03.)
 7. Hazardous waste clean-up, e.g. asbestos, lead paint. (Refer to 090202.05.)
 8. Restoration or improvements to a heritage asset, but not considered a multi-use heritage asset. (Refer to Volume III Chapter 6, Heritage Assets.)

C. Capitalization prior to October 1, 2013.

1. Capitalize a newly constructed building costing over \$500,000, begun September 20, 2012 and completed, August 1, 2013. (Refer to 090202)
2. Capitalize a new X-Ray machine purchased for \$187,000 on July 1, 2013, and accepted for use, September 5, 2013. (Refer to 090202)

D. Capitalization on or after October 1, 2013, threshold of \$1,000,000.

1. Capitalize a renovation, costing \$1,300,000, to expand capacity of a building, already recorded as a capitalized fixed asset, completed November 15, 2013. (Refer to 090202)

2. Capitalize a subsequent phase of a project put into service, on January 5, 2014, costing \$99,000, when the initial phase of the project was placed in service September 18, 2013 and capitalized for \$101,000. (Refer to 090202)
3. Expense from Work-in-Process a construction project, costing \$500,000, to renovate a cemetery building (already recorded as a capitalized fixed asset), started May 1, 2013, and completed October 20, 2013. (Refer to 090202)
4. Expense an X-Ray machine purchased for \$245,000 on September 20, 2013 and accepted for use on November 25, 2013. (Refer to 090202)

APPENDIX E: PROCEDURES TO TRANSFER PP&E WITHIN VA

A. Transfers within VA for Real Property Assets. For real property that is purchased or constructed by one station for another, the asset will not be transferred until it is placed in service. This may occur in phases as is the case for some WIP projects. The procedures below may be used for real property and energy project related real property.

1. The responsible engineering staff or program managers will provide the purchasing station with a capitalization memorandum or email for the completed real property identifying pertinent information for recording the asset. At a minimum, the information will include the type of project (building, improvement to land, other real property, etc.), the amount to be capitalized, date placed in service, and the useful life.

a. The **purchasing station (transfer out):**

(1) Finance will review the capitalization information received from engineering or the program manager and the WIP report for the capitalization amount.

(2) Finance will process the proper SV transaction(s), using the table below as a guide, with one line for each document ID on the WIP report for the appropriate fund, e.g., 0158B1, and the DOC ID listed. The SV transaction(s) will remove the real property asset from GL 1720 (WIP) for the purchasing station.

PURCHASING STATION - TRANSFER OUT					
BOC	BOC Description	SV	Ind	Debits	Credits
3215	Improvements to Land – Capitalized	20	I	1712	1720
3220	Buildings – Capitalized	30	I	1730	1720
3240	Other Structures or Real Property – Capitalized	28	I	1740	1720
3260	Energy Projects – Capitalized (Buildings)	30	I	1730	1720
3260	Energy Projects – Capitalized (Other Structures)	28	I	1740	1720
3260	Energy Projects – Capitalized (Leasehold Improvements)	29	I	1820	1720

After the asset is moved from GL 1720 WIP to the proper GL, the GN-068 program⁵⁰ (for certain identified funds) will generate an automated SV transaction (RJ transaction type) that will transfer the full amount to the corresponding AMAF fund. Not all funds are identified in the GN-068 automated programming and do not transfer. For example, when the construction funds (0110, 0111) are used, the corresponding GN-068 RJ transaction will not automatically post. Users would need to post RJ D4 or RJ D5 for Buildings, RJ D6 or RJ D7 for Other Structures, or other RJ transaction as appropriate.

(3) Using the table below as a guide, Finance will process the proper SV D# or E# transaction and process an SV M6 transaction to transfer the real property asset out of their station's asset equity account (AMAF or other fund).

PURCHASING STATION - TRANSFER OUT					
BOC	BOC Description	SV	Ind	Debits*	Credits
3210	Land – Capitalized	D3	D	5721	1711
3215	Improvements to Land – Capitalized	E2	D	5721	1712
3220	Buildings – Capitalized	D4	D	5721	1730
3240	Other Structures or Real Property – Capitalized	D6	D	5721	1740
3260	Energy Projects – Capitalized (Buildings)	D4	D	5721	1730
3260	Energy Projects – Capitalized (Other Structures)	D6	D	5721	1740
3260	Energy Projects – Capitalized (Leasehold Improvements)	E9	D	5721	1820
####	As appropriate	M6	I	5730	5721

* Financing source transfer GL accounts

b. The **receiving station**:

(1) Finance will process the proper standard voucher (SV) transaction(s), using the table below as a guide, to transfer the real property asset into their asset equity account (AMAF or other fund).

RECEIVING STATION - TRANSFER IN					
BOC	BOC Description	SV	Ind	Debits	Credits*
3210	Land – Capitalized	M1	I	1711	5720
3215	Improvements to Land – Capitalized	MW	I	1712	5720

⁵⁰ The GN-068 program is an automated process that transfers amounts recorded in the appropriated fixed asset general ledger accounts to the corresponding GL account in the AMAF Fund.

RECEIVING STATION - TRANSFER IN					
BOC	BOC Description	SV	Ind	Debits	Credits*
3220	Buildings – Capitalized	M2	I	1730	5720
3240	Other Real Property – Capitalized	M3	I	1740	5720
3260	Energy Projects – Capitalized (Buildings)	M2	I	1730	5720
3260	Energy Projects – Capitalized (Other Structures)	M3	I	1740	5720
3260	Energy Projects – Capitalized (Leasehold Improvements)	MX	I	1820	5720

* Financing source transfer GL accounts

(2) Finance will process an FA (Fixed Assets Acquisition) or FB (Fixed Assets Betterment) document in the AMAF or other fund, as appropriate, for the full amount of the capitalized project.

B. Transfers within VA for Capitalized Personal Property. All transfers of personal property will be conducted in accordance with VA Directive/Handbook 7348, *Utilization and Disposal of Personal Property*. The procedures below address the financial aspects of the transfer for capitalized personal property.

- Finance activities will work in conjunction with the local logistics staff to ensure that transfers are properly recorded and supported with appropriate documentation.
- Timing Differences. Allowable timing differences resulting in an imbalance between the GL and the FAP records will occur in instances where the receiving reports are processed during the end of an accounting period and the transfers by the purchasing facility to the receiving facilities could not be accomplished in the same accounting period.

All timing differences stemming from the inter-facility transfer of equipment must be reconciled and cleared in the accounting period following the processing date of the receiver document.

1. Consolidated Purchases by a Station and Transferred. For equipment purchased by one station on behalf of other stations, the purchasing station will transfer the equipment to the receiving stations in the same accounting period the receiver document is processed.

The purchasing facility should not record the equipment in its FAP (either entered directly or through AEMS/MERS)⁵¹ except for the portion that will remain at the purchasing facility. For VHA, this will result in a red financial indicator. The resulting red financial indicator should be forwarded to the “Financial Indicator Waiver Committee” for a waiver. The VHA finance activity will document the waiver for audit purposes.

a. Purchasing station **does not** receive reimbursement from the receiving station:

(1) The **purchasing station (transfer out)**:

- Logistics will enter an FA (acquisition) document for its portion of equipment purchased to establish the asset in the FAP and notify the finance activity that the remaining equipment is being transferred to the other stations.
- Logistics and the finance activity will notify the other stations that the personal property has arrived and is being transferred.
- The finance activity will process an SV transaction, as appropriate, for the equipment to be transferred-out to other stations. The following table provides examples of SV transactions.

PURCHASING STATION - TRANSFER OUT				
Description	SV	Ind	Debits*	Credits
Non-Expendable Equipment	UA	I	5730	1750
ADP Non-Expendable Equipment	UB	I	5730	1751
Equipment under Capital Lease	UD	I	5730	1811

* Financing source transfer GL accounts

(2) The **receiving station**:

- Logistics will enter an FA (acquisition) document to establish the asset in the FAP and notify the finance activity of the transferred property.
- The finance activity will process an SV transaction, as appropriate, for the transferred-in asset. The following table provides examples of SV transactions.

⁵¹ Throughout this appendix where FAP is used (for personal property), it is assumed to be updated either directly to or through an interface with AEMS/MERS.

RECEIVING STATION - TRANSFER IN				
Description	SV	Ind	Debits	Credits*
Non-Expendable Equipment	M4	I	1750	5720
ADP Non-Expendable Equipment	M5	I	1751	5720
Equipment under Capital Lease	M8	I	1811	5720

* Financing source transfer GL accounts

b. Purchasing station **receives** reimbursement from the receiving station:

(1) The **purchasing station (transfer out)**:

- Logistics will enter an FA (acquisition) document for its portion of equipment purchased to establish the asset in the FAP and notify the finance activity that the remaining equipment is being transferred to the other stations.
- Logistics and the finance activity will notify the other stations that the personal property has arrived and is being transferred.
- The finance activity will process an EB transaction with two lines: Line 001, EB 01 with a "D" indicator for the purchasing station; and Line 002, EB 01 with an "I" indicator for the receiving station. The fund will be the appropriated fund, not the AMAF Fund. The EB transactions will automatically generate SV transactions through the GN-068 in the appropriate GL accounts and AMAF Fund.

(2) The **receiving station** logistics staff will enter an FA (acquisition) document to establish the asset in FAP. Refer to [1.a.\(2\)](#) above.

2. Transfer of Existing Personal Property from Station to Station.

a. The **transfer out station**:

- Logistics and finance will verify that the personal property being transferred has been previously established in the FAP and reconciled to the GL.
- Finance will print the FAS2 FMS table for the equipment acquisition number. This will show the value of the equipment and the accumulated depreciation. To enter equipment with depreciation, refer to [Step 2a-1](#) and continue to [Step 2a-2](#). For equipment without depreciation, refer to [Step 2a-2](#).

Step 2a-1

- Finance will enter an FC (modification) document in the FAP and change the depreciation method to MC (Manual Calculation). This will allow station to change the accumulated depreciation to zero in FMS, MDEP table.
- Finance will go to the MDEP table. Input Action: S, Fixed Asset type (example, E for Equipment) and Fixed Asset Acquisition Number and enter. It will show the depreciated amount.

Change Action: C and on EQUITY 1: 0.00 and TOTAL: 0.00. This changes the depreciation amount to zero. A message will appear that a journal voucher is needed. If an asset has depreciation from prior fiscal years, the transferring-out station will need a copy of FA04 for EOY and the most current FA04. This information must be provided to receiving station.

- If accumulated depreciation has been posted for the current fiscal year, finance will process one of the following SV transactions to remove the accumulated depreciation and depreciation expense posted to the GLs.

TRANSFER OUT STATION - Current FY Depreciation				
Description	SV	Ind	Debits	Credits
Accum Depr - Non-Expendable Equipment	13	D	1759	6710
Accum Depr - ADP Non-Expendable Equipment	7J	D	1758	6710
Accum Depr - Equipment under Capital Lease	7K	D	1818	6710
Accum Depr (Amor) - IT Software	7M	D	1839	6710

- If accumulated depreciation has been posted in prior fiscal years, finance will process one of the following SV transactions to remove the accumulated depreciation and depreciation expense posted to the GLs.

TRANSFER OUT STATION - Prior FY Depreciation				
Description	SV	Ind	Debits	Credits*
Accum Depr - Non-Expendable Equipment	UF	D	1759	5730
Accum Depr - ADP Non-Expendable Equipment	UG	D	1758	5730
Accum Amor - IT Software	UH	D	1839	5730
Accum Depr - Equipment under Capital Lease	UI	D	1818	5730

TRANSFER OUT STATION - Prior FY Depreciation				
Description	SV	Ind	Debits	Credits*

* Financing source transfer GL accounts

Step 2a-2

- Logistics will enter an FC (modification) document to change the asset value to zero when the asset is ready to be transferred.
- Logistics will enter an FD (disposal) document to generate zero balance GL entries to avoid recognition of a loss on disposal in SGL account 7212.
- Finance will process an SV transaction, as appropriate, for the transferring-out asset type in FMS.

TRANSFER OUT STATION				
Description	SV	Ind	Debits*	Credits
Non-Expendable Equipment	UA	I	5730	1750
ADP Non-Expendable Equipment	UB	I	5730	1751
IT Software	UC	I	5730	1830
Equipment under Capital Lease	UD	I	5730	1811

* Financing source transfer GL accounts

b. The **receiving station (transfer in)** will take the following actions:

- Logistics will enter an FA (acquisition) document to establish the asset in the FAP.
- If the original FA has depreciated, it has to be manually entered in FMS, MDEP table. This information comes from the transferring station. To enter equipment with depreciation, refer to [Step 2b-1](#) and continue to [Step 2b-2](#). For equipment without depreciation, refer to [Step 2b-2](#).

Step 2b-1

- Finance will enter a FC (modification) document to FAP and change the depreciation method to MC.
- Finance will go to FMS table MDEP. Input Action: S and Fixed Asset type, Fixed Asset Acquisition Number and enter. The MDEP will show the asset value and depreciation amount.

Change Action: C and input the depreciation amount on EQUITY 1: and TOTAL and press Enter. This action changes the depreciation amount. A message will appear that a journal voucher is needed.

- To post current fiscal year accumulated depreciation and depreciation expense to the GLs, finance will process an SV transaction, as appropriate, in FMS.

RECEIVING STATION - TRANSFER IN - Current FY Depreciation				
Description	SV	Ind	Debits	Credits
Accum Depr - Non-Expendable Equipment	13	I	6710	1759
Accum Depr - ADP Non-Expendable Equipment	7J	I	6710	1758
Accum Depr - Equipment under Capital Lease	7K	I	6710	1818
Accum Depr (Amor) - IT Software	7M	I	6710	1839

- To post prior fiscal year accumulated depreciation to the GL, process an SV transaction, as appropriate, in FMS.

RECEIVING STATION - TRANSFER IN - Prior FY Depreciation				
Description	SV	Ind	Debits*	Credits
Accum Depr - Non-Expendable Equipment	MA	D	5720	1759
Accum Depr - ADP Non-Expendable Equipment	MB	D	5720	1758
Accum Depr (Amor) - IT Software	MC	D	5720	1839
Accum Depr - Equipment under Capital Lease	MD	D	5720	1818

* Financing source transfer GL accounts

Step 2b-2

- Finance will process an SV transaction, as appropriate, for the transferred-in asset. The following table provides examples of SV transactions.

RECEIVING STATION - TRANSFER IN				
Description	SV	Ind	Debits	Credits*
Non-Expendable Equipment	M4	I	1750	5720
ADP Non-Expendable Equipment	M5	I	1751	5720
IT Software	M7	I	1830	5720
Equipment under Capital Lease	M8	I	1811	5720

* Financing source transfer GL accounts

APPENDIX F: DEFERRED MAINTENANCE AND REPAIRS ESTIMATES AND FCA PROCESS

I. DEFERRED MAINTENANCE AND REPAIRS ESTIMATES. Refer to section [090209, Deferred Maintenance and Repairs](#), for overall VA guidance.

A. At the beginning of the fiscal year, the finance activity will record the estimated cumulative total of deferred maintenance and repair projects (for capitalized assets⁵²) based upon the final amount reported for September 30 of the prior year. The estimate will be adjusted quarterly as necessary. The finance activity and engineering staffs or program managers will ensure that the September 30 balance reflects the proper amount as increased or decreased throughout the year.

B. The finance activity and engineering staffs or program managers will work together to ensure the information is properly estimated and recorded.

1. The engineering staffs or program manager will prepare the deferred maintenance and repairs estimate with adjustments, as applicable to capitalized assets (based on the FCA report), in accordance with the PP&E policy. The estimate will be provided to the finance activity, in either hard or soft copy, and include supporting documentation. The documentation will be maintained by the finance activity and made available for any local audit.

a. The FCA is generally used as the starting point for the deferred maintenance and repairs estimate although other survey methods may be used, as long as they satisfy generally accepted government accounting standards for determining financial data reported for deferred maintenance and repairs. At a minimum, the FCA for a facility or station is conducted on a 3-year rotation.

b. Because maintenance and repairs, by definition, is expensed (not of a capital nature or capitalized), a dollar threshold does not apply when determining whether it is included. However, for practical purposes, deferred maintenance and repairs of an immaterial nature (as determined on a case-by-case basis) may be excluded if they were not originally identified on the FCA being used as the basis.

2. The engineer staffs or program managers should follow the process below when developing the estimate and adjustments for deferred maintenance and repairs. Determinations for whether a cost is capitalized or expensed will be based upon the policy provided in this chapter.

⁵² Prior to October 1, 2013, capitalization threshold is \$100,000. On or after October 1, 2013, capitalization threshold is \$1,000,000. It is possible to have deferred maintenance on capitalized assets, costing less than a million dollars, built before October 1, 2013, while a similar valued asset built after October 1, 2013, would not.

- a. Apply a consistent methodology for determining deferred maintenance and repairs across similar assets. Document any changes in the methodology when they occur.
 - b. Review the FCA to ensure the maintenance and repair costs included are those that should have been incurred, but are deferred to future periods due to resource or funding constraints. Do not include costs that would normally be performed in a future period.
 - c. Add other maintenance and repair work, routine and non-routine, not reported in the FCA that has been deferred.
 - d. Add the increased cost of construction if the FCA report is out-of-date, and document the source of the cost escalation index as well as the methodology applied.
 - e. Remove any items determined to be of a capital nature. Submit to the finance activity for a final decision any question on whether a cost should be considered as maintenance and repairs or an addition or improvement that may need to be capitalized.
 - f. Remove any costs associated with work that has been completed or, if in progress, indicate that an invoice has been received and processed for payment.
 - g. Remove costs associated with removal and clean-up of asbestos or other hazardous materials projects. These costs are included in the environmental liability account. Refer to [Volume VI Chapter 8, *Environmental and Disposal Liabilities*](#), for policy and guidance.
3. The estimates, supporting documentation, and a signed memorandum are provided to the finance activity by major real property asset class in a written and supportable format, either in hard or soft copy.
 4. The finance activity will review the report and the supporting documentation to determine whether the costs included are expensed and should not be capitalized. Costs that are questionable should be discussed with the engineering staffs or program manager before a final decision. The finance activity will maintain the supporting documentation for any changes to the estimates and provide a courtesy copy to the engineering staffs or program manager.
 5. The finance activity will record the appropriate expense by the standard general ledger, to include, 9201 - land, 9202 - buildings, 9203 - equipment, 9204 - other structures, 9205 - heritage, and 9206 - offset deferred maintenance.
- II. DESCRIPTION OF THE FCA PROCESS. Questions on this section should be referred to the VACO CFM FCA Office.

A. VA tracks its infrastructure needs for its owned assets through FCAs, although other generally acceptable methods are available. The FCAs are compiled by a multi-disciplinary team of architects and engineers, working in conjunction with, and receiving input and assistance from, facility engineering staffs or program managers.

B. The Office of Construction and Facilities Management (CFM) Consulting Support Service manages, conducts, and funds this VA-wide program, which is endorsed by VA management for assessing the real property condition of VA facilities.

C. An independent interdisciplinary professional CFM-trained contractor architect/engineer team tours and evaluates every VA building on a 3-year cycle. Each building component is assessed and, along with a description, given an estimate of the remaining useful life and a grade from “A” to “F.” The grade is based on VA guidelines for evaluating the condition of each building’s systems. Refer to example, Figure 9F-1 - FCA VAMC Building Site Template.

Figure 9F-1: FCA VAMC Building Site Template



Any building component graded “D” or “F” is given an estimated correction cost. Only components graded “D” or “F” are included in the recorded deferred maintenance and repairs entry. These correction costs are subtotaled for each building system and totaled for each building. Estimates are also provided for the cost of replacement for each building system and each building total. Many VA structures are also assessed.

D. FCA Ratings.

- FCA rating of A = Like-new condition
- FCA rating of B = Over half of useful life remains
- FCA rating of C = Less than half of useful life remaining / average condition
- FCA rating of D = Poor condition, at the end of its useful life
- FCA rating of F = Critical condition, requires immediate attention

E. FCA Report Results.

The finance activity should receive a copy of its responsible stations’ or facilities’ FCA reports. For copies of the FCA report, the finance activity should contact its local engineering staffs or program manager.

APPENDIX G: EXAMPLES OF CAPITALIZATION REQUEST

Following are examples of capitalization requests that are currently in use by VHA and NCA. The information should be filled in as requested and coordinated with the respective Finance Activity.

A. VHA Capitalization Memorandum and Form:

Department of Veterans Affairs

Memorandum

Date:

From: [Engineer or Program Manager]

Subj: [Description of Project or Capitalized Asset]

To: [Title of Chief, Fiscal Service]

1. ITEM TO BE CAPITALIZED:

a. Purchase or Contract Number:

b. Fund Control Point:

c. Is the item (a) new, (b) a replacement of property previously in use, or (c) an expenditure incurred which significantly extends the useful life of property through rehabilitation, alterations, or betterment? [Identify asset]

(1)	Cost of new item	\$.00
(2)	Cost of replacement item:	\$.00
	Cost (write-off) of item replaced:	\$.00
(3)	Cost of significant improvement which extends the life of property currently in use (not a replacement)	\$.00
(4)	Cost of architect/engineering design and services prior to contract which will be capitalized.	\$.00

2. NON-CAPITALIZED ITEM:

[Name, Title, and Signature of Requestor]

	<u>DESIGN</u>	<u>CONSTRUCTION</u>
Contract Number:		6789
Purchase Order Number:	999C0001	999X0002
Date Started:	10/9/2010	7/10/2010
In-Service Date:	7/1/2013	7/1/2013
Date Completed:	6/30/2013	6/30/2013
Percentage of Project In Service:	100%	100%
Total Contract Price:	\$100,000.00	\$1,500,000.00
Design Changes or Installation:	\$0.00	\$0.00
Sub-Total to be Capitalized:	\$100,000.00	\$1,500,000.00
Total to be Capitalized:	\$1,600,000.00	

COTR Signature: _____
Contract Officer Technical Representative

Date: July 18, 2013

Supervisor Signature: _____
Chief Engineer

Date: July 18, 2013

Department of Veterans Affairs
General Property, Plant, and Equipment

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Appendix G

B. NCA Capitalization Form:

Capitalization Authorization:																	
Cemetery: (filled out by Finance)						Project Manager: (filled out by Finance)											
Project Name: (filled out by Finance)																	
Project Number: (filled out by Finance)																	
NEW ASSETS		To be completed by Project Manager					To be completed by NCA Finance										
Station	Asset Description	BOC	TOTAL COST	BFY	DATE CAPITALIZED	Assigned FA NUMBER	Assigned FA NAME	AO	BFY	FUND	Funding Project	Asset Code	FA Group	FA LOC	Cost Ctr	Estimated Life	
								40									
								40									
								40									
								40									
Total New Assets			\$0.00														
BETTERMENTS to EXISTING ASSETS:				To be completed by Project Manager				To be completed by NCA Finance									
Station	Asset Description	BOC	TOTAL COST	Date Capitalized	FA NUMBER of Existing Asset from FA04 RSD Report	FA NAME from FA04 RSD Report	Asset Code	AO	BFY	FUND	Funding Project	Asset Code	FA Group	FA LOC	Cost Ctr	Estimated Life	
								40									
								40									
								40									
								40									
Total Cost of Betterments			\$0.00										SUB-TOTAL		\$0.00		
ASSETS TO BE REMOVED: (Assets that were demolished or rebuilt to the point where they no longer are the same asset - i.e. a former storage building that is now a computer lab)																	
				To be completed by Project Manager				To be completed by NCA Finance									
Station	Asset Description	BOC	TOTAL COST	Date Capitalized	FA NUMBER of Existing Asset from FA04 RSD Report	FA NAME from FA04 RSD Report	Asset Code	AO	BFY	FUND	Funding Project	Asset Code	FA Group	FA LOC	Cost Ctr	Estimated Life	
								40									
								40									
								40									
								40									
Notes And Reconciliation with WIP to be completed by NCA Finance																	
WIP	Project	BFY	FUND	Amount	This section is filled out by Finance with the total amount on the WIP report broken down by project @, Fiscal year and fund, before sending it to the Project managers for completion.												
WIP Total				\$ -													